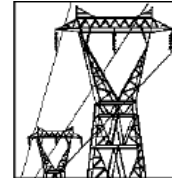
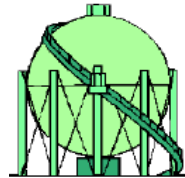




Defense Energy Support Center

Total Energy Solutions



Fact Book 2002
Twenty-Fifth Edition

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FOREWORD

The Defense Energy Support Center Fact Book contains statistical information regarding the Center's business operations. The Fact Book reflects the Center's operational status at the end of fiscal year 2002 unless otherwise indicated. The intent is for the use of this publication as a source for general information purposes only. The Fact Book is not to be considered a source for official communications. We hope you will find it useful.

The Fact Book can also be found on-line at www.desc.dla.mil in the Publications section of the web page.

DESC CORPORATE POSTURE

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DEFENSE ENERGY SUPPORT CENTER

HISTORY:

The origin of the Defense Energy Support Center dates back to World War II. Originally it was an entity of the Department of Interior as the Army-Navy Petroleum Board. Its mission was to administer the critical petroleum requirements during World War II. In 1945, it was transferred to the War Department and became the Joint Army-Navy Purchasing Agency.

The Agency underwent several name changes but its mission remained essentially the same until 1962. At that time, it became a part of the consolidated military supply organization, the Defense Supply Agency, now known as the Defense Logistics Agency (DLA). The Center was designated the Defense Fuel Supply Center (DFSC) in 1964 as a single entity to purchase and manage the Department of Defense's petroleum products and coal.

In 1973, DFSC progressed from a wholesale fuel central procurement activity to a more comprehensive mission as the Integrated Materiel Manager (IMM) for the Department of Defense petroleum requirements. Under Phase I, DFSC added management of the acquisition, storage, distribution and sale of fuel with responsibility ending at the Service installation boundary. In 1991 Phase II began, which expanded DLA's ownership of bulk petroleum products to include most bulk storage installations. This effort was divided into two parts, Phase IIA which capitalized aviation fuel and Phase IIB which will capitalize all ground fuels.

Once Phase II is completed DLA will own all bulk petroleum products from the point of purchase until its final point of issue to power aircraft, ships, and ground equipment.

In 1990, the DFSC mission was expanded to include the supply and management of natural gas as well as the basic petroleum and coal products. Under this program, natural gas requirements were consolidated and centrally procured with a mission to provide direct supply natural gas to customers when determined more economical than using gas from a local distribution company.

February 11, 1998 marked the beginning of a new chapter in the Center's history with a name change to Defense Energy Support Center. With it came a new mission to build an energy program aimed at moving the Department of Defense out of the management of energy infrastructure and into the management of energy products.

The initiative to deregulate electricity in CONUS added still another mission to DESC. As states deregulate, DESC pursues and awards contracts for electricity services to CONUS DoD and Federal Civilian Agency installations in the same manner as procurements for natural gas.

DESC, despite changes in organization structure and expanded mission, continues its basic mission to support the warfighter and manage the energy sources of the future.



Defense Energy Support Center's Mission



**To provide the Department of Defense,
and other customers,
with comprehensive energy solutions
in the
most effective and economical manner
possible.**

DEFENSE ENERGY SUPPORT CENTER DIRECTOR'S UPDATE FOR FISCAL YEAR 2002

In Fiscal Year (FY) 2002, Defense Energy Support Center (DESC) met more than the usual number of challenges in meeting the needs of its customers worldwide. Operation Enduring Freedom and other anti-terrorism operations demanded innovation and dedication of DESC's Ft. Belvoir and Regional teams.

At the same time, the Center expanded its efforts to achieve higher standards in reforming business processes and implementing the latest technology. As the Center changed from managing energy infrastructure to managing energy products, it worked toward providing comprehensive energy solutions. Significant efforts in this area included partnering with the energy industry and its customers and implementing the latest in information technologies. Additional initiatives like FAS (Fuels Automated System), the Balanced Scorecard, and Executive Agency are ongoing, and continue to help DESC accomplish its mission in the most efficient and economical manner.

In FY 2002, DESC expanded Ground Fuels biodiesel support with purchases of 970,000 gallons of biodiesel fuel for military installations in 11 states, which included Air Force, Navy, and Marine Corps installations. In addition to the military, DESC supported several federal civilian agencies: NASA, U.S. Postal Service, and the Departments of Interior and Agriculture with a combined 796,000 gallons of biodiesel fuel.

In addition USD (AT&L) approved the bulk petroleum quality assurance (QA) mission transfer from DCMA to DESC on September 26, 2002, with a completion date of January 26, 2003. The consolidation creates a single work force with overall responsibility for fuel QA/QS missions under one organization, improves supply chain management, and realizes work force savings.

In FY 2002, the Center continued providing energy support to all customers. From Department of Defense contingency operations in support of Operation Enduring Freedom, to an ever-increasing customer base in the electricity and natural gas markets, DESC ensured delivery of the right product at the right time. The Center carried out its critical support of the warfighter overseas by providing the necessary fuel to U.S. forces, NATO, and other allies in both peacetime and contingency modes.

On 1 October 2001, DESC assumed a new mission and to that end, a new Commodity Business Unit (CBU) was formed. The Missile Fuels CBU serves as DoD's Integrated Material Manager for space and space-related products and services. It continues a tradition of world-class support and business solutions to DoD, Federal Agencies, Defense Contractors, and academia in support of major Space programs. Each of their 64 product types supports at least one DoD Major Weapon System in some manner. We are proud to have the Missile Fuels group, located at Lackland AFB, Texas, as part of the DESC Team.

DEFENSE ENERGY SUPPORT CENTER DIRECTOR'S PLAN FOR FISCAL YEAR 2003

During FY 2003, DESC will continue to provide world-class support to its customers by developing successful programs and initiatives to meet the mission.

DESC will better serve its customers through programs like Fuels Automated System (FAS). FAS is DESC's immediate future. The Center will continue to roll out bulk FAS (East Coast and international) and is aiming to complete FFMIA testing so PC&S applications can be implemented no later than October 1, 2003.

DESC will continue to support DLA strategies and transformation initiatives.

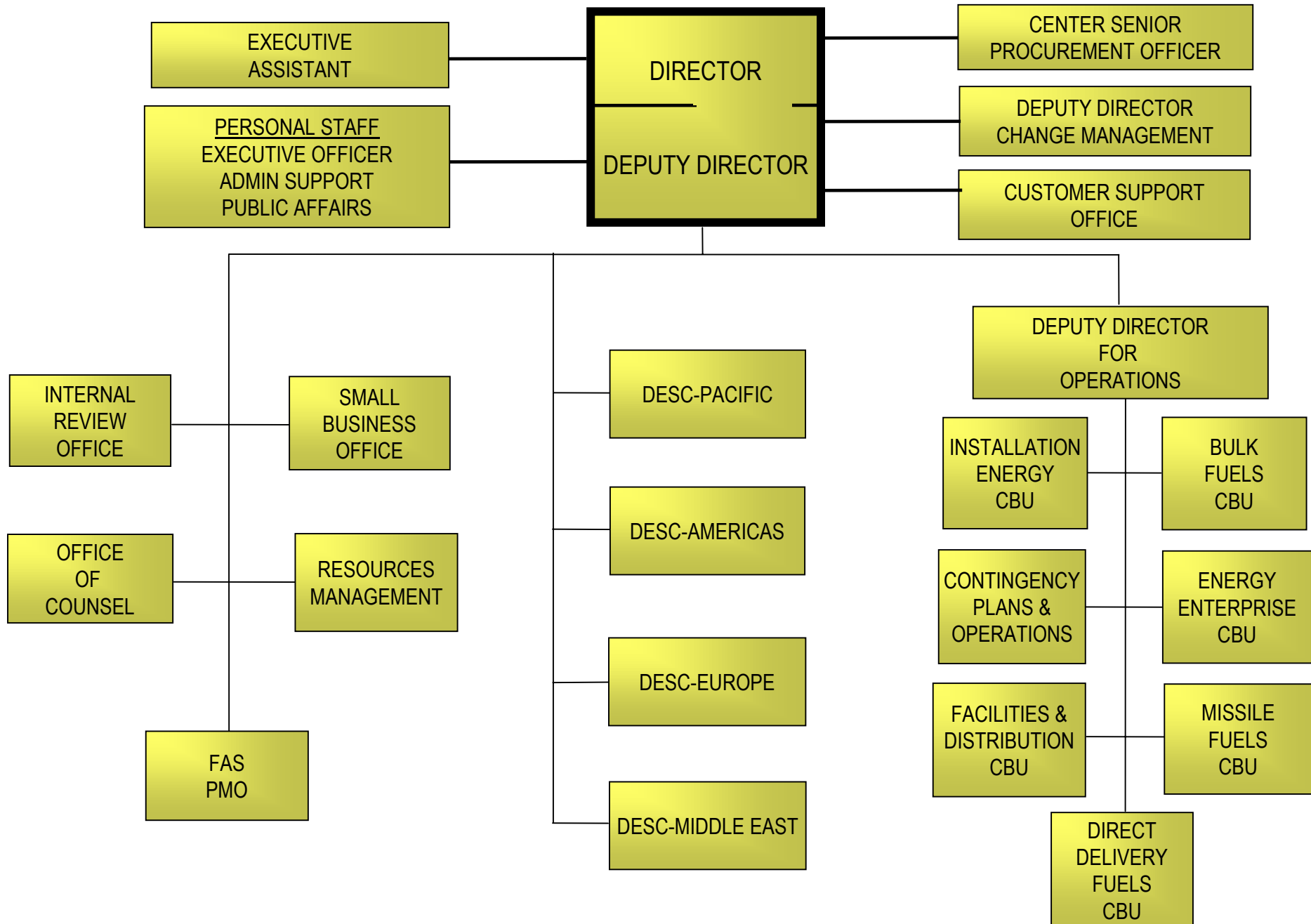
Among these are:

1. Modifying our Balanced Scorecard to reflect our best guess as to the most important mid-term indicators of success towards meeting the strategy;
2. Implementing changes needed to bring our financial statements up to standards required for commercial auditing;
3. Continue to improve our capability to support the warfighter through implementing strategic supplier/vendor alliances around the world.

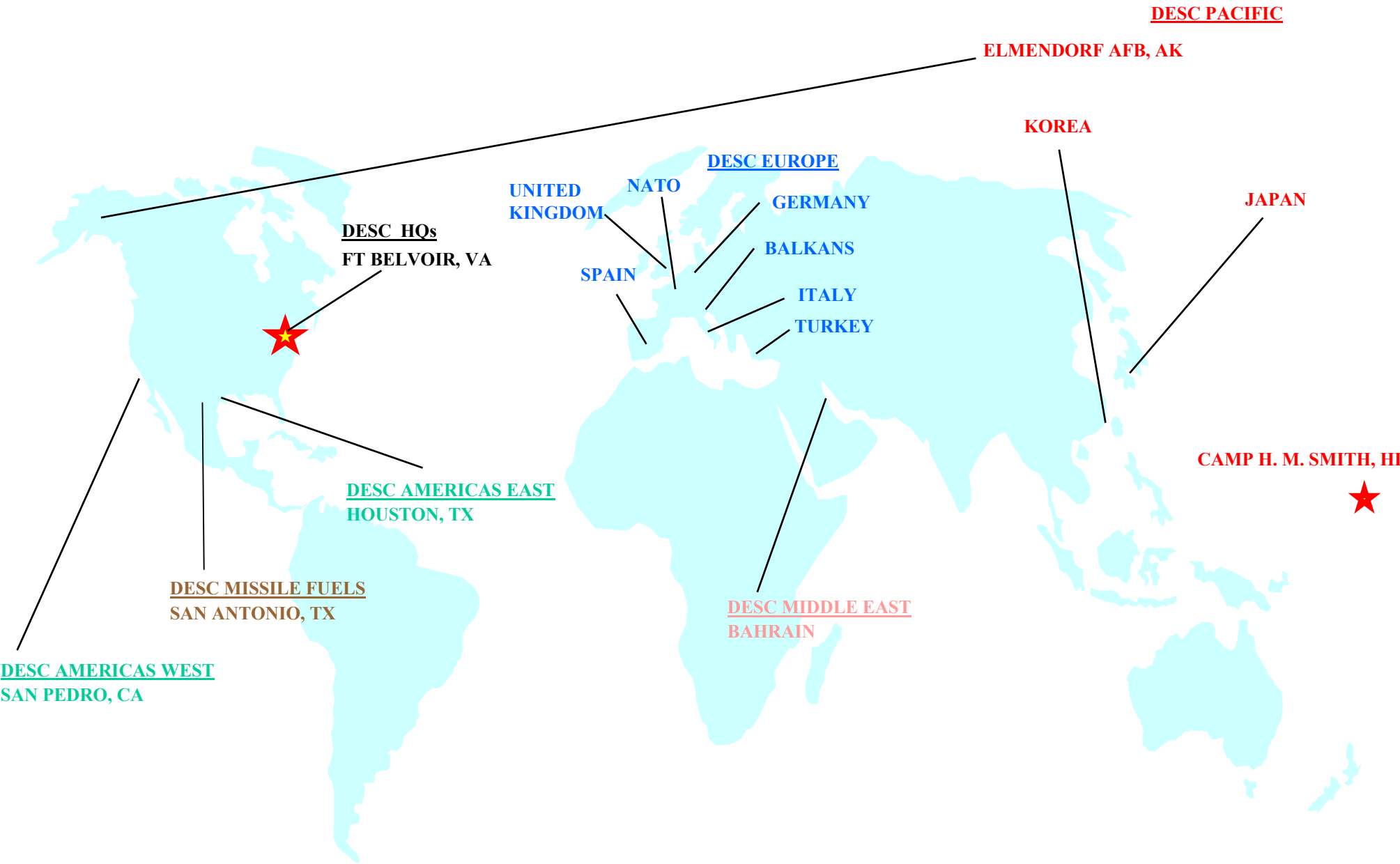
In addition, DESC will continue to support the Office of the Secretary of Defense's (OSD's) goal of privatizing on-base utility infrastructure in order to achieve its vision managing energy, not infrastructure.

The ultimate goal remains, as always, to ensure the most effective and economical energy support to the men and women of our Armed Forces and our Federal Civilian Agencies.

DESC Organization



DESC WORLDWIDE LOCATIONS



BIOGRAPHY

JEFFREY A. JONES

Director, Defense Energy Support Center

As Director of the Defense Energy Support Center (DESC), Mr. Jeffrey Jones directs the Department of Defense organization responsible for purchasing and managing all petroleum resources used by the U.S. military. In addition, Mr. Jones guides the growing mission of total energy support by developing strategies to buy and sell deregulated electricity and natural gas to DoD and other federal agency customers. In his capacity as DESC's Director, Mr. Jones also directly supports DoD's initiative to privatize the military base infrastructure that distributes those utilities (in addition to lighting, heating, air conditioning and water/wastewater systems).

Mr. Jones assumed the DESC directorship in March 2000. He had served as Deputy Commander, Defense Logistics Support Command, since July 1997, and as the agency's Executive Director, Logistics Management, from June 1995 to July 1997.

From November 1992 until June 1995, Mr. Jones served as DoD's Assistant Deputy Under Secretary of Defense (Materiel and Resource Management Policy), presenting the department's views to Congress and the public. He also represented the United States internationally, including at NATO, and coordinated department programs for supply management and related activities.

From February through July 1993, Mr. Jones served as Acting Deputy Assistant Secretary of Defense (Logistics). From October 1992 through February 1993, Mr. Jones served as Director, Materiel and Resource Management Policy, concurrently serving as the department's Director, Energy Policy. From May 1992 through October 1992, Mr. Jones served as Acting Director, International Logistics.

Mr. Jones completed the resident National Security Course of the Industrial College of the Armed Forces in July 1984, moving to the Office of the Secretary of Defense immediately thereafter. Prior to ICAF, Mr. Jones served as the DESC (then the Defense Fuel Supply Center) Deputy Director, Supply Operations, with worldwide responsibilities for military petroleum supply and storage operations.

From 1979 to 1981, Mr. Jones held positions at Headquarters, U.S. Air Force, with responsibility for supply, equipment, property management and disposal policy. He joined the federal civil service in 1973 and, until 1979, served as a supply systems analyst with the Air Force, developing policies and systems for improved management, materiel and financial accounting.

BIOGRAPHY

CAPTAIN STUART D. FUNK

**United States Navy
Deputy Director, Defense Energy Support Center**

In September 2000, Captain Stuart D. Funk reported as Deputy Director, Defense Energy Support Center. From June 1998 until September 2000, he commanded the Navy Petroleum Office, which is responsible for worldwide technical support of the Naval fuel mission. He has been designated as a subspecialist in petroleum management and operations analysis, and is a member of the Acquisition Professional Community (DAWIA Level III) as a result of his shore tours.

Captain Funk completed the Basic Course at the Navy Supply Corps School in Athens, Georgia, in 1976. His first sea duty assignment was aboard the USS MOUNT HOOD (AE-29) homeported in Concord, California. From 1977 until 1979, he served as the Assistant Supply Officer, with duties as the Disbursing Officer, Ship's Services Officer, and the Food Services Officer while making two WESTPAC deployments. His subsequent sea duty assignment was from 1981 to 1983 as the Supply Officer on the USS HAROLD E. HOLT (FF-1074), homeported in Pearl Harbor, Hawaii. During his tour, the USS HAROLD E. HOLT completed a WESTPAC deployment, as well as a regularly scheduled shipyard overhaul.

Captain Funk's shore assignments have included duty in the areas of fuel management and budget development. He served on the staff at CINCPACFLT in Pearl Harbor, Hawaii, from 1979 to 1981 as the Fleet Fuel Systems Officer and the Sub Area Petroleum Officer for the Mid Pacific. From 1985 through 1988, he was the Requirements Division Officer at the Navy Petroleum Office, Cameron Station, Virginia. After completion of the Program Manager's Course at the Defense Systems Management College in 1988, he reported to the Naval Air Systems Command for duty as the Deputy Program Manager for Business and Financial Management on the Airborne Self-Protection Jammer (ASPJ) program (PMA-272). He was assigned to the U.S. European Command in Stuttgart, Germany, from 1991 to 1994, serving in the Joint Petroleum Office as the Staff Petroleum Officer for plans and theater reserves. From 1995 to 1998, he served as the Support and Infrastructure Analyst in the Navy Assessment Division (N81), which is responsible for management of the Navy's long-range budget and requirements assessment process.

Captain Funk graduated from the U.S. Naval Academy in 1976 with a bachelor of science degree in Aerospace Engineering. In December 1984, he earned a master of science degree in Petroleum Management from the University of Kansas. He also earned a master's degree in National Security Studies from the Naval War College in 1995, and completed the Advanced Management Program at the University of North Carolina, Chapel Hill in 1999.

Captain Funk's personal decorations include the Defense Meritorious Service Medal (2 awards), the Meritorious Service Medal (2 awards), the Navy Commendation Medal, and the Navy Achievement Medal.

BIOGRAPHY

COLONEL STEPHEN P. PASSERO

United States Army Director of Operations Defense Energy Support Center

Colonel Passero enlisted in the Army as a private in 1974. After attending Officer Candidate School, he was commissioned as a Second Lieutenant in the Quartermaster Corps (QM) in 1975.

Colonel Passero's first assignment as an officer was in the 2nd Supply & Transport Battalion, Camp Casey, Korea, where he served as a Petroleum Platoon Leader. Reassigned to Ft. Lee, Virginia, he served as the S-3 Training Officer, 240th QM Battalion and later as aide-de-camp for the Commander, Troop Support Agency. Promoted to Captain and reassigned to Ft. Jackson, South Carolina, Colonel Passero served first as a Battalion Executive Officer, then as a Company Commander of a basic training Company and finally as the Brigade S-4.

In 1983, Colonel Passero was assigned to the 3rd Armored Division, Frankfurt, Germany, where he served first, as the Petroleum Officer, Division Materiel Management Center (DMMC) and later as the Executive Officer for the DMMC. Reassigned to V Corps in Frankfurt, Colonel Passero served as the Corps Petroleum Officer until 1987 when he was promoted to Major and reassigned to Ft. Drum, New York.

While at Ft. Drum, he was the Battalion S-3 and Executive Officer of the 548th Supply and Service Battalion and later Deputy G-4, 10th Infantry Division. He was assigned to Headquarters, United States Army Pacific (USARPAC), Ft. Shafter, Hawaii, in 1990 where he served as the Petroleum Officer.

Selected for Lieutenant Colonel and battalion command, Colonel Passero was next assigned as the Executive Officer, 24th Corps Support Group at Ft. Stewart, Georgia, and following that assignment, assumed command of the 260th Quartermaster Battalion, Hunter Army Airfield, Savannah, Georgia in 1994.

Returning to Germany in 1996, Colonel Passero served as the United States European Command Joint Petroleum Officer and later as Chief, Joint Logistics Operations Center, Stuttgart, Germany.

Promoted to Colonel on August 1, 1998, Colonel Passero attended the Air War College and upon graduation, assumed command of the Defense Energy Support Center, Europe, in August 1999. He reported as the Deputy Director of Operations at the Defense Energy Support Center at Fort Belvoir, Virginia, in September 2002.

Colonel Passero received his Bachelor of Science degree from Coker College, Hartsville, South Carolina, and a Master's Degree in Strategic Studies from the Air University, Montgomery, Alabama.

DEFENSE ENERGY SUPPORT CENTER



Director	(703) 767-9706
Deputy Director	(703) 767-9700
Deputy Director, Operations	(703) 767-9301
Executive Officer/Public Affairs	(703) 767-9721
Business Change Management Office	(703) 767-9675
Internal Review Office	(703) 767-9671
Small Business Office	(703) 767-9465
Office of Counsel	(703) 767-5011
Center Senior Procurement Official	(703) 767-8505
Market Research	(703) 767-8353
Director, Contingency Plans & Operations	(703) 767-8370
Director, Resources Management	(703) 767-9484
Director, Installation Energy	(703) 767-8572
Director, Energy Enterprise Office	(703) 767-8571
Director, Bulk Fuels	(703) 767-9306
Director, Facilities Distribution Management	(703) 767-9360
Director, Direct Delivery Fuels	(703) 767-8500
Director, FAS Program	(703) 767-8632
Director, Missile Fuels	(210)-925-4455

DEFENSE ENERGY SUPPORT CENTER

Regional Offices

DESC AMERICAS

DESC Americas	(703) 767-9306
DESC Americas East	(713) 718-3770 ext. 702
DESC Americas West	(310) 900-6960 ext. 1101

DESC PACIFIC

DESC Pacific	(808) 477-3600/6692
DESC Middle Pacific	(808) 477-5441/6692
DESC Korea	011-82-53-470-4862
DESC Japan	011-81-311-755-2671/2763
DESC Alaska	(907) 552-3949

DESC EUROPE

DESC Europe	011-49-611-380-7710
DESC London	011-44-208-385-5449
DESC Livorno	011-39-050-54-7085
DESC Incirlik	011-90-322-332-3407/3409
DESC Rota	011-34-956-82-2045
DESC Miesau	011-49-631-536-8209
DESC NATO	011-32-2724-3118
DESC Split	011-385-1-390-8510

DESC MIDDLE EAST

DESC Middle East	011-973-72-4650
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ENERGY SUMMARY

(In Millions of Dollars)

FY2002

Purchases At Cost	\$5,193.0 (1)
Net Sales	\$5,778.1 (2)
Ending Inventory	\$2,043.9 (3)

(1) Includes Expenses for Petroleum, Natural Gas, Missile Fuel, Federal Excise Tax, Transportation, Facilities, DESC Operations, Corporate.

(2) Includes Net Sales for Petroleum, Natural Gas, and Missile Fuel

(3) Includes Petroleum and Missile Fuel Inventory





MILITARY AND CIVILIAN END STRENGTHS



	MILITARY		CIVILIAN	
	AUTHORIZED	ON BOARD	AUTHORIZED	ONBOARD
FY 96	81	76	681	661
FY 97	81	74	654	633
FY 98	82	71	658	607
FY 99	81	72	649	595
FY00	76	64	610	599
FY01	76	61	621	599
FY02	76	68	710	689

SOURCE: CIVILIAN DATA - DIRECTORATE OF RESOURCES MANAGEMENT

OPERATIONS PROGRAM (\$ IN MILLIONS)

	<u>FY 99</u>	<u>FY00</u>	<u>FY 01</u>	<u>FY02</u>
CIVILIAN PAY	\$38.6	\$40.3	\$42.7	\$51.3
MILITARY PAY	8.3	5.8	7.7	9.2
NON-LABOR	61.8*	72.3*	84.7	93.5
TOTAL	\$108.7	\$118.4	\$135.1	\$154.0
<i>Average Cost Per Work Year (\$actual)</i>				
	\$64,820	\$67,062	\$71,960	\$76,412

* INCLUDES OPERATION ENDURING FREEDOM SUPPORT AND COSTS FOR THE FUELS AUTOMATED SYSTEM (FAS)

PETROLEUM, NATURAL GAS & ELECTRICITY

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STATEMENT OF FINANCIAL CONDITIONS

BULK FUEL CATEGORY

(Millions of Dollars)

<u>ASSETS:</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>
Accounts Receivable	103.6	187.1	331.9
Claims Receivable	1.4	6.4	0.5
Inventories	2,483.6	1945.1	2,043.9
Undistributed Collections	278.1	<384.0>	<318.2>
Progress Payments	0	0	0
<u>TOTAL ASSETS</u>	\$2866.7	\$1,754.6	2,058.1
<u>LIABILITIES:</u>			
Accounts Payable	564.0	473.6	550.0
Undistributed Disbursements	<333.8>	<369.9>	<449.8>
Other Liabilities	1.2	.3	.3
<u>TOTAL LIABILITIES</u>	\$231.4	\$104.0	
<u>CAPITAL:</u>			
Cash Allocation	<2,125.9>	<1,971.7>	<2,631.0>
Capitalized Inventories	470.0	479.1	523.7
Decapitalized Inventories	<3.7>	<3.7>	<3.7>
Other Liabilities Capitalized	2,377.9	2,382.5	2,256.0
Accumulated Operating Results	1,407.3	792.4	1,671.1
<u>TOTAL CAPITAL</u>	\$2,125.6	\$1,678.6	1,957.6
<u>TOTAL LIABILITIES AND CAPITAL</u>	\$2,357.0	\$1,782.6	2,058.1

STATEMENT OF SALES

PETROLEUM, NATURAL GAS AND MISSILE FUEL

(In Millions of Dollars)

<u>PRODUCT:</u>	FY00	FY01	FY02
U.S. ARMY	185.6	296.0	341.1
U.S. NAVY	1,160.9	1,852.5	1,830.7
U.S. AIR FORCE	1,652.7	2,692.6	3,309.4
U.S. MARINE CORPS	33.1	33.8	25.0
OTHER DoD	9.7	21.5	32.7
TOTAL DoD	3,042.0	4,896.4	5,538.9
OTHER GOVERNMENT AGENCIES	83.1	194.8	365.3
SUBTOTAL	3,125.1	5,091.2	5,904.2
FOREIGN GOVERNMENTS	1.6	73.8	159.2
DoD CONTRACTORS	0.3	2.6	15.2
UNIDENTIFIED ISSUES	0	0	0
TOTAL GROSS SALES	3,127.0	5,167.6	6,078.6
<u>LESS:</u>			
PRICE REDUCTION ON SALES	0.1	9.7	8.5
MATERIAL RETURNS CREDITS APPLIED	124.2	232.1	300.8
NET SALES	3,002.7	4,925.8	5,769.3

NET SALES BY CATEGORY

PETROLEUM, NATURAL GAS AND ELECTRICITY

PETROLEUM (<i>Thousands of Barrels</i>)			
<u>BULK CATEGORY</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>
AVGAS	0	18	2
DISTILLATES & DIESEL	16,578	17,735	19,574
GASOHOL	0	1	4
JP-4,JAB,JAA,JA1	122	186	2,384
JP-5	15,745	15,915	20,590
JP-8	64,290	64,539	77,415
LUBE OILS	27	27	29
MOGAS (<i>LEADED & UNLEADED</i>)	588	921	1,234
RESIDUALS	0	10	124
BULK SUBTOTAL	97,350	99,352	121,356
INTO-PLANE CATEGORY	3,440	3,757	4,078
PC&S CATEGORY	4,180	4,746	2,951
BUNKERS CATEGORY	2,730	2,460	2,334
LOCAL PURCHASE	N/A	N/A	1,584
TOTAL PETROLEUM	107,700	110,315	134,588
NATURAL GAS (<i>Thousands of Dekatherms</i>)	28.0	24.6	24.3
ELECTRICITY (<i>Thousands of Megawatthours</i>)	1.4	430	0*

* Program changed from DWCF reimbursable orders to direct citing of Military Service funds.

PRODUCT COST

PETROLEUM, NATURAL GAS AND ELECTRICITY

PETROLEUM (<i>Millions of Dollars</i>)			
<u>BULK CATEGORY</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>
AVGAS	\$0	\$0	\$0.2
DISTILLATES & DIESEL	483.4	612.6	539.5
GASOHOL	0	0	0.2
JP-4,JAB,JAA,JA1	6.5	8.3	349.6
JP-5	529.8	686.1	599.3
JP-8	2,139.3	2,330.4	2,144.3
LUBE OILS	2.8	3.2	4.1
MOGAS (<i>LEADED & UNLEADED</i>)	22.2	33.3	43.4
RESIDUALS	5.9	11.1	4.4
BULK SUBTOTAL	\$3,189.9	\$3685.0	\$3,685.0
INTO-PLANE CATEGORY	171.1	210.7	187.9
PC&S CATEGORY	150.5	186.6	97.2
BUNKERS CATEGORY	92.4	95.5	76.1
TOTAL PETROLEUM	\$3,603.9	\$4,177.8	\$4,046.2
NATURAL GAS	\$92.2	\$229.6	\$102.5
ELECTRICITY	\$97.9	\$47.0	0*
MISSILE FUEL			\$44.1

* Program changed from DWCF reimbursable orders to direct citing of Military Service funds.

PURCHASES BY CATEGORY

PETROLEUM, NATURAL GAS AND ELECTRICITY

PETROLEUM (<i>Thousands of Barrels</i>)			
<u>BULK CATEGORY</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>
AVGAS	0	0	2
DISTILLATES & DIESEL	15,546	17,627	19,286
GASOHOL	0	1	4
JP-4,JAB,JAA,JA1	118	155	8,748
JP-5	15,399	18,568	20,578
JP-8	61,740	62,255	73,434
LUBE OILS	27	26	32
MOGAS (<i>LEADED & UNLEADED</i>)	604	882	1,315
RESIDUALS	246	499	222
BULK SUBTOTAL	93,680	100,013	123,621
INTO-PLANE CATEGORY	3,440	3,756	4,077
PC&S CATEGORY	4,250	4,760	2,972
BUNKERS CATEGORY	2,730	2,460	2,334
LOCAL PURCHASE	N/A	N/A	1,584
TOTAL PETROLEUM	104,100	110,989	134,588
NATURAL GAS (<i>Thousands of Dekatherms</i>)	28.0	24.6	24.3
ELECTRICITY (<i>Megawatts</i>)	1,230	430	0

WORLDWIDE BULK FUEL ENDING INVENTORY FY02

(Millions of Barrels and Dollars)

PRODUCT	FY00		FY01		FY02	
	<u>BARRELS</u>	<u>DOLLARS</u>	<u>BARRELS</u>	<u>DOLLARS</u>	<u>BARRELS</u>	<u>DOLLARS</u>
AVGAS	0.0	\$0.0	0.0	\$0.0	0.0	\$0.0
DISTILLATES & DIESEL	7.0	\$302.4	7.7	\$269.5	8.0	\$291.4
JP-4 (JP-4, JAB, JAA, & JA1)	1.8	\$104.9	1.7	\$98.9	1.8	\$91.1
JP-5	13.7	\$608.6	14.4	\$508.8	13.7	\$478.1
JP-8	28.2	\$1,263.4	25.7	\$904.2	27.0	\$937.4
LUBE OILS	0.0	\$2.3	0.1	\$2.7	0.0	\$2.6
MOGAS (LEADED & UNLEADED)	0.2	\$10.2	0.3	\$12.8	0.3	\$11.8
RESIDUALS	0.0	\$1.0	0.3	\$7.7	0.1	\$3.3
ADDITIVES	<u>0.0</u>	<u>\$0.0</u>	<u>0.0</u>	<u>\$0.0</u>	<u>0.0</u>	<u>\$0.0</u>
TOTAL ON-HAND	50.9	\$2,292.8	50.2	\$1,804.6	50.9	\$1,815.7
TOTAL IN TRANSIT	3.4	\$190.8	4.0	\$140.5	4.9	\$131.7
TOTAL	54.3	\$2,483.6	54.2	\$1,945.1	55.8	\$1,947.4

SOURCE: DIRECTORATE OF RESOURCES MANAGEMENT

DIRECT SUPPLY NATURAL GAS PROGRAM SUMMARY FY 02



Dekatherms (DTH) and Dollars

	<u>TOTAL DTH</u>	<u>TOTAL VALUE</u>
DWCF FUNDED	24.34M	\$93.77M
SERVICE FUNDED	32.91M	\$103.20M
TOTALS	57.25M	\$196.97M

INFRASTRUCTURE DATA

TITLE

PAGE

Number of Wholesale Terminals	23
Cost of Storage/Distribution Services	24
Maintenance, Repair & Environmental Costs	25
Number & Size of Domestic Refineries	26

NUMBER OF TERMINALS STORING GOVERNMENT-OWNED FUEL FY 02

TYPE OF OPERATION	ARMY	NAVY	AIR FORCE	DLA	TOTAL
GOVERNMENT-OWNED GOVERNMENT-OPERATED (GOGO)	114	37	187	0	338
GOVERNMENT-OWNED CONTRACTOR-OPERATED (GOCO)	14	21	24	16*	75
CONTRACTOR-OWNED CONTRACTOR-OPERATED (COCO)	0	0	3	34	37
NORTH ATLANTIC TREATY ORGANIZATION (NATO)	0	1	0	6	7
COMMERCIAL PIPELINE	0	0	0	36	36
FLOATING STORAGE	0	18	0	0	18
FOREIGN GOVERNMENT (FG)	0	0	0	9	9
TOTAL	128	77	214	101	520

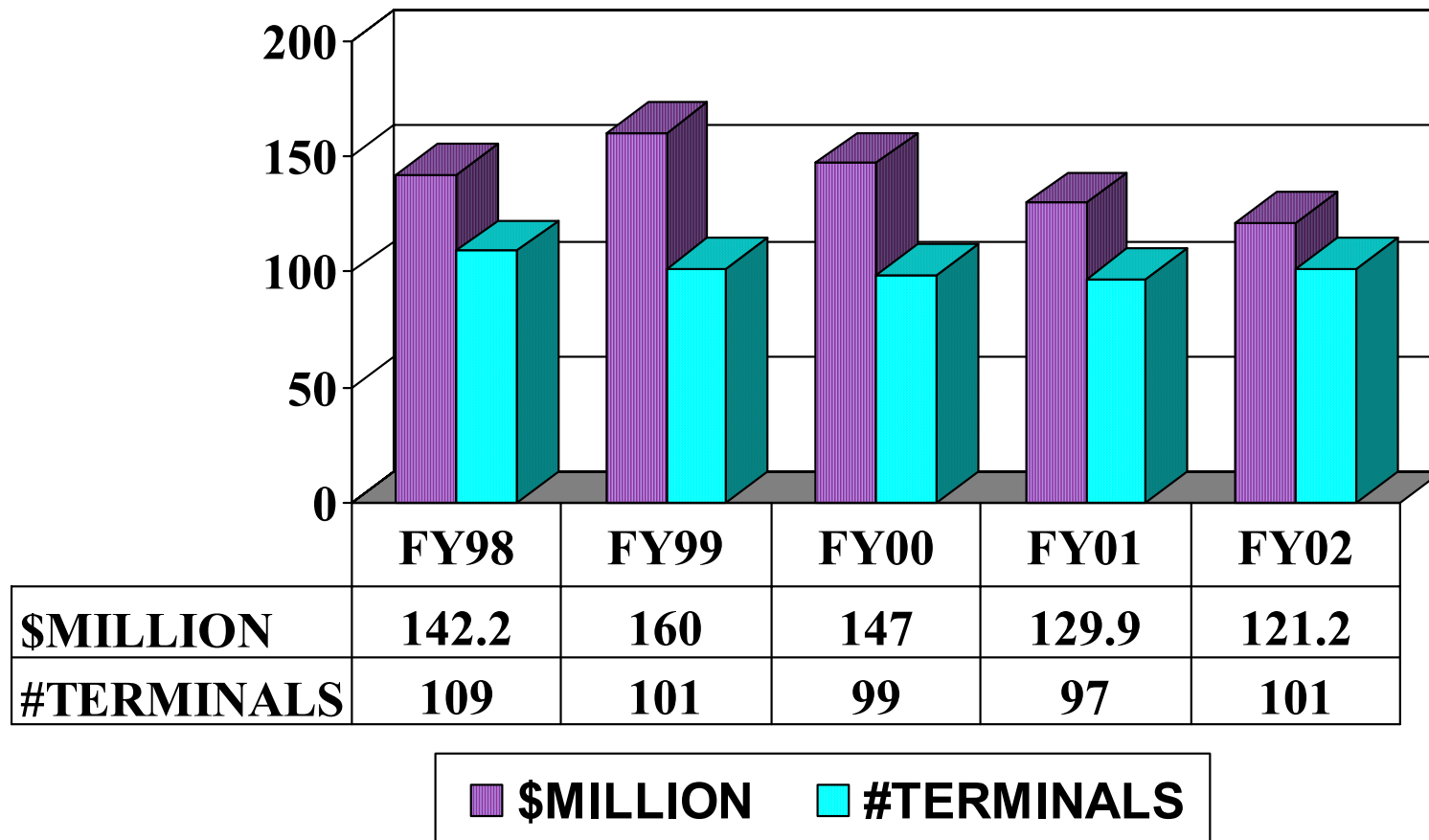
Note: Defense Fuel Support Points as of September 30, 2002

*** Includes 3 Service-Managed, DLA-funded GOCOs**

GOCOs in caretaker status during environmental cleanup not included in numbers

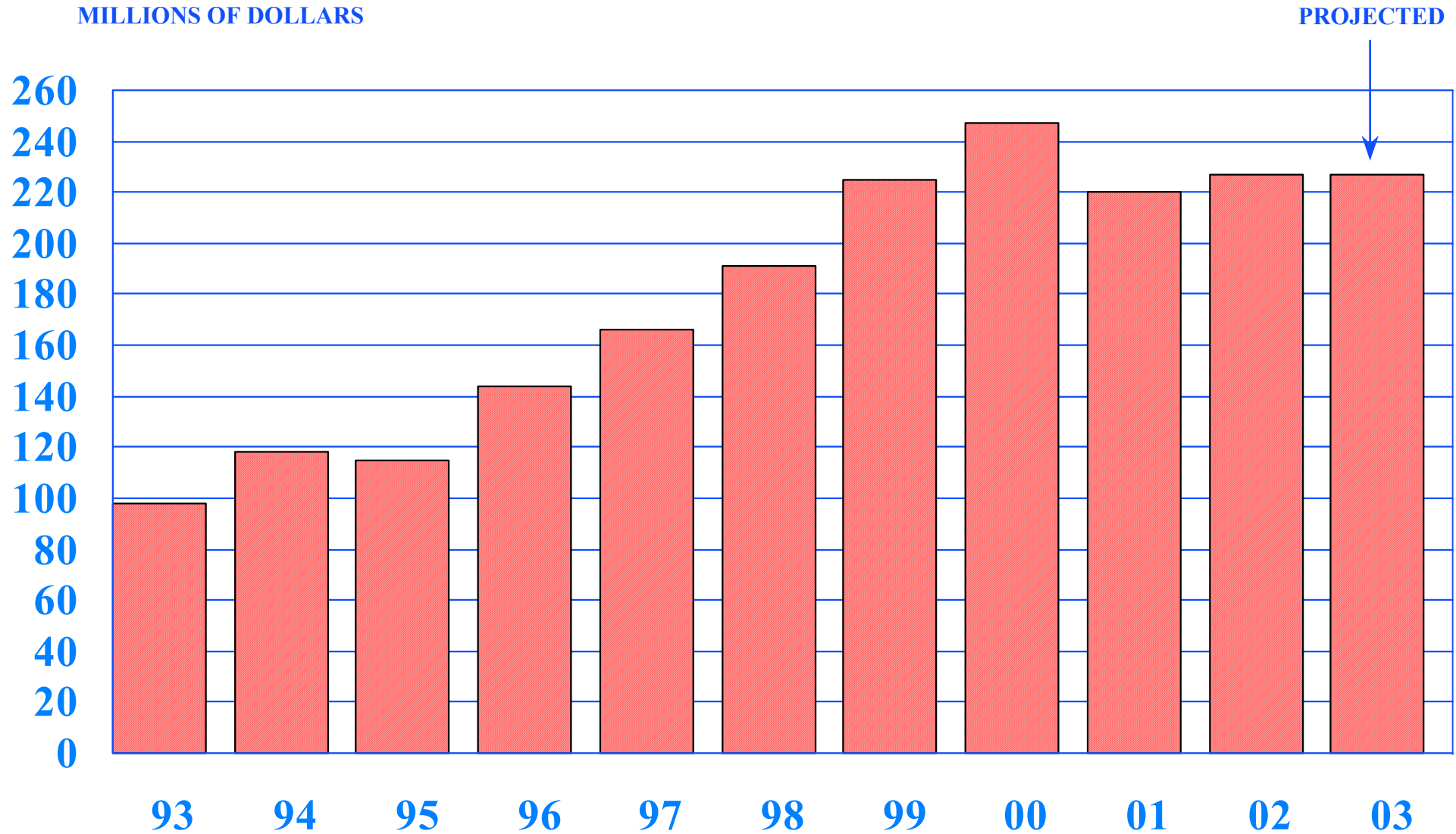
Increase in number of DFSPs is the result of Phase IIB capitalization

COST OF STORAGE/DISTRIBUTION SERVICES GOGO/GOCO/COCO/FG/NATO



SOURCE: FACILITIES AND DISTRIBUTION MANAGEMENT COMMODITY BUSINESS UNIT

MAINTENANCE, REPAIR, AND ENVIRONMENTAL COSTS



SOURCE: FACILITIES AND DISTRIBUTION MANAGEMENT COMMODITY BUSINESS UNIT

NUMBER AND SIZE OF DOMESTIC REFINERIES (BY CALENDAR YEAR)

<u>CRUDE DISTILLATION CAPACITY BARRELS/DAY</u>	<u>1986</u>	<u>1988</u>	<u>1990</u>	<u>1992</u>	<u>1994</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2002</u>	<u>Change 1986-2002</u>
LESS THAN 50,000	124	117	106	96	75	70	62	57	55	54	49	-75
50,000- 100,000	41	37	39	43	43	40	41	37	42	42	38	-3
100,001- 175,000	27	29	31	30	29	24	25	26	25	24	23	-4
OVER 175,000	22	22	23	24	25	31	29	31	32	32	38	16
TOTAL	214	205	199	193	172	165	157	151	154	152	148	-66

Source for 1986-1994, 1997, 1999-2000: US Department of Energy
Source for 1996, 1998: Oil and Gas Journal

DESC'S BUSINESS VENTURES

TITLE	PAGE
DESC Optimization Projects	27
Utility Privatization Awards/Cost Avoidance	28
Small & Disadvantaged Business Utilization	29

DESC Optimization Projects (\$ in Millions)

Location	Service	Type	Contract Date	Savings	Note
Ft Bragg, NC	USA	COCO	Apr-98	7.5	*
Schofield Barracks, HI	USA	COCO	Jun-98	6.7	*
Ft Jackson, GA	USA	COCO	Jun-99	1.5	*
29 Palms, CA	USMC	COCO	Jul-99	5.2	*
Ft Hood, TX	USA	GOCO	Dec-00	4.5	**
Hunter AAF, GA	USA	GOCO	Dec-00	0.7	**
Ft Stewart, GA	USA	COCO	Jun-01	3.5	*
MC Bases, Okinawa	USMC	GOCO	Apr-02	1.9	*
Ft Gordon, GA	USA	COCO	Oct-02	0.5	**
TOTAL SAVINGS				\$32.0	

* Costs are 20 year NPV (\$M)

** Costs are 5 year NPV (\$M)

SOURCE: FACILITIES AND DISTRIBUTION MANAGEMENT COMODITY BUSINESS UNIT

Utility Privatization Awards/Cost Avoidance

LOCATION	SYSTEM	CONTRACTOR	DATE	TOTAL AWARD AMOUNTS	COST AVOIDANCE Annual \$ (Estimated)	% SAVINGS (Annual % on NPV Basis) (Estimated)
Picatinny Arsenal, New Jersey	Electric	Sussex Rural Electric Cooperative	Sep 02	\$43 M 50 Years	\$313,000	26.4%
Minneapolis- St Paul ARB, Minnesota	Gas-GSA	Minneapolis Gas Company (Reliant Energy Company)	Sep 01	\$92K 6 Years	\$13,834	47.5%
Bolling AFB, District of Columbia	Gas-GSA	Washington Gas and Light Company	Jul 01	\$428K 6 Years	\$16,005	15.6%
Fort Detrick, Maryland	Gas-GSA	Washington Gas and Light Company	Dec 00	451K 6 Years	\$49,866	35.6%

SMALL AND DISADVANTAGED BUSINESS UTILIZATION

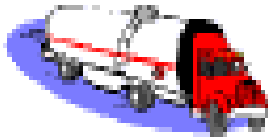
Small Business Preference Progs.	FISCAL YEAR 00			FISCAL YEAR 01			FISCAL YEAR 02		
	TARGETS	PERFOR.	DOLLARS	TARGETS	PERFOR.	DOLLARS	TARGETS	PERFOR.	DOLLARS
Small Bus Awards	21.5	22.30%	\$782,866	30.30%	29.40%	\$ 1,134,587	27.77%	28.10%	\$ 990,682
Small Business Set-Aside Awards	13.50%	9.10%	\$321,707	4.10%	11.40%	\$ 440,172	++	8.60%	\$ 301,028
Small Disadvantaged Business Awards	5.00%	4.00%	\$139,808	4.20%	4.20%	\$ 163,407	5.07%	5.00%	\$ 174,131
Direct Competitive			\$131,103			\$ 157,038			\$163,715
Section 8(a)			\$8,705			\$ 6,369	0.50%	0.30%	\$ 10,487
Women-Owned Small Bus Awards	2.00%	0.04%	\$14,128	5.00%	1.10%	\$ 43,341	1.00%	3.80%	\$ 135,467
Hubzone Small Business Awards	1.50%	0%	*	2.00%**	4.4%	\$ 169,535	2.50%	2.40%	\$ 85,116
Svc-Disabled Vet- Owned Small Business Awards			*	3.00%**	0.1%	\$ 5,747	0.20%	0.02%	\$ 662
Total Domestic Awds			\$3,518,268			\$3,859,699			\$3,513,282

Note: All percentages based on total domestic dollars awarded

* This Small Business category was not tracked Prior to FY 01.

FUEL TRANSPORTATION

TITLE	PAGE
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Worldwide Transportation By Mode	31
Worldwide Bulk Fuels Transportation Expenses	32



NUMBER OF SHIPMENTS



DESC	<u>TRUCK*</u>	<u>RAIL</u>	<u>PIPELINE</u>	<u>BARGE*</u>	<u>TOTAL</u>
AMERICAS-EAST	68,116	3,524	2,767	1,651	76,058
AMERICAS-WEST	17,188	1,060	281	205	18,734
SUBTOTAL CONUS	85,304	4,584	3,048	1,856	94,792
TOTAL OCONUS	16,720	6,524	0**	20	23,264
TOTAL SHIPMENTS	102,024	11,108	3,048	1,876	118,056
* Includes contract truck and barge shipments					
** Incorporated into International Agreements (Code F)					

WORLDWIDE TRANSPORTATION BY MODE

	(MILLIONS OF BARRELS)			
	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>
BARGE*	11.1	12.8	17.9	27.1
PIPELINE	51.1	45.6	56.2	72.9
RAIL	4.2	4.2	4.3	7.3
TRUCK*	<u>19.5</u>	<u>12.7</u>	<u>16.6</u>	<u>24.7</u>
SUB TOTAL	85.9	75.3	95.0	132.0
OCEAN TANKER	48.1	39.7	45.0	51
TOTAL	134.0	115.0	140.0	183.0
* Includes contract truck and barge				

SOURCE: BULK FUELS COMMODITY BUSINESS UNIT

WORLDWIDE BULK FUEL TRANSPORTATION EXPENSE (\$ IN MILLIONS)

PRODUCT	FY 00	FY 01	FY02
AVGAS	0	0	0
DISTILLATES & DIESEL	41.2	50.1	50.4
JP-4, JAB, JAA, & JA1	0.2	0.3	22.6
JP-5	42.0	51.1	57.7
JP-8	166.0	182.4	203.9
LUBE OILS	0.1	0.1	0.1
MOGAS (LEADED & UNLEADED)	1.6	2.4	3.9
RESIDUALS	<u>0.0</u>	<u>0.3</u>	<u>0.7</u>
TOTAL	\$252.1	\$287.7	\$339.3
WORLDWIDE MISSILE FUEL			\$2.6

SOURCE: DIRECTORATE OF RESOURCES MANAGEMENT - FINANCIAL RECORDS

INTERNATIONAL AGREEMENTS & FOREIGN MILITARY SALES

TITLE

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Facility/Service Agreements

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Product Agreements

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Additional Information

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Foreign Military Sales

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FACILITY/SERVICE AGREEMENTS FY 02 (\$ IN MILLIONS)



<u>REGION</u>	<u># AGREEMENTS</u>	<u>ANNUAL COST (Est)</u>
DESC-EUROPE	10	\$ 34.4
DESC-MIDDLE EAST	0	\$ 0
DESC-PACIFIC	2	\$ 8.1
DESC-AMERICAS	0	\$ 0
TOTAL	12	\$ 42.5

SOURCE: FACILITIES AND DISTRIBUTION MANAGEMENT COMMODITY BUSINESS UNIT

PRODUCT AGREEMENTS FY 02 (\$ IN MILLIONS)




<u>REGION</u>	<u># AGREEMENTS</u>	<u>ANNUAL COST (Estimated)</u>
DESC-EUROPE	2	\$ 0 (exchange)
DESC-MIDDLE EAST	3	\$ 75.0
DESC-PACIFIC	1	\$ 70.7
*FEA'S/RIK'S	19	\$ 35.5** **Net
		Sales to Foreign Gov = 62M
		Recvd from Foreign Gov = 27.4M
TOTAL	25	\$ 145.7

* foreign exchange agreements/replacement in kind

SOURCE: FACILITIES AND DISTRIBUTION MANAGEMENT COMMODITY BUSINESS UNIT

INTERNATIONAL AGREEMENTS ADDITIONAL INFORMATION (on-going actions at end of FY 02)

- 
- ➡ **AGREEMENTS LIST TO BE POSTED ON THE DESC HOME PAGE**
 - ➡ **AGREEMENTS PROCESS WITH OSD BEING DEFINED AND REFINED**
 - ➡ **NEGOTIATIONS WITH KOREA, EGYPT, OMAN, TURKEY, UZBECKISTAN, GREECE, ITALY, UNITED KINGDOM, COLUMBIA AND CANADA ON FUEL SUPPORT ISSUES**

SOURCE: FACILITIES AND DISTRIBUTION MANAGEMENT COMMODITY BUSINESS UNIT

FOREIGN MILITARY SALES (FMS) /MISCELLANEOUS

- FMS

 - Bosnia \$89.3M

- Port Tampa dock services \$1.9M

- Yumurtalik, Turkey mooring services
\$.12M

DESC's CONTRACT STATISTICS

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CONTRACT INTRODUCTION FY 02

NATURE OF DESC PETROLEUM PRODUCT CONTRACTS

- ✓ **Contracts are requirements-type contracts.**
- ✓ **Minimum/maximum delivery order limitations are defined.**
- ✓ **Fuel is called forward through delivery orders.**
- ✓ **Contracts contain price adjustment clauses.**
- ✓ **Contract prices are indexed to market price indicators.**
- ✓ **All indicators are carefully selected and tested by the DESC Market Research and Analysis Office**
- ✓ **Contract prices are adjusted upward or downward as indicators rise or fall.**
- ✓ **DESC pays the contract price in effect on the date of delivery, or as otherwise adjusted in the contract price**





CONTRACT AWARD DATA



	<u>DOLLARS MILLIONS</u>	<u>AWARD ACTIONS</u>	<u>LINE ITEMS</u>
BULK FUEL DIVISION			
DOMESTIC	2,163.4	56	123
OVERSEAS	1,785.4	78	120
BULK LUBES	3.1	16	49
BULK FOREIGN MILITARY SALES	53.2	0	0
CRUDE OIL	0	0	0
GROUND FUELS DIVISION			
DOMESTIC	411.0	1,356	2,707
OVERSEAS	118.4	41	153
DIRECT DELIVERY FUELS			
INTO-PLANE	215.4	152	296
BUNKERS	178.2	41	174
FACILITIES PROCUREMENT DIVISION			
STORAGE	55.1	25	59
ALONGSIDE AIRCRAFT REFUELING	27.5	6	13
UTILITIES	0.0	0	0
TESTING/SERVICES/FMS	134.5	159	159
ALTERNATIVE FUELS DIVISION			
NATURAL GAS	485.9	163	390
COAL	40	14	34
ELECTRICITY	181.5	6	21
MISSILE FUELS	78.0	33	169
ENERGY ENTERPRISES			
PRIVATIZATION	3.7	5	5
ESPCs	25.7	1	4
TOTAL	5,960.0	2,152	4,476

Note: Data source is FY01 DD350s containing estimated contract award amounts

SOURCE: Procurement Planning and Support Division, Procurement Oversight Branch



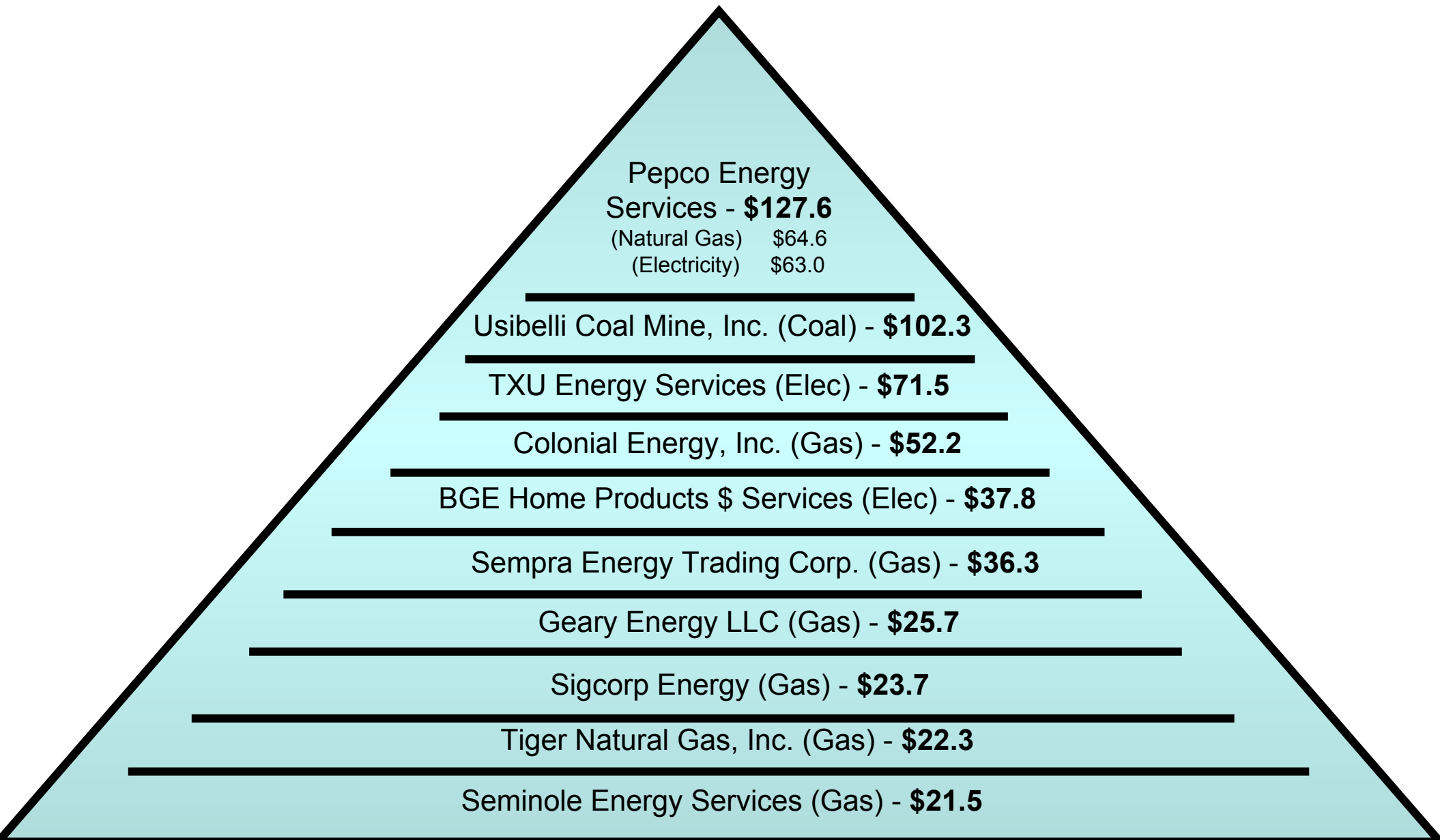
FY02
TOP TEN DESC PETROLEUM CONTRACTORS
(\$ IN MILLIONS)

	<u>AWARD AMOUNT</u>	<u>PERCENT OF TOTAL CONTRACT \$</u>
EXXON MOBIL CORP	\$ 567.2	11.7
SHELL	\$ 538.3	11.1
BP	\$ 329.9	6.8
VALERO MARKETING & SUPPLY CO	\$ 246.4	5
CALTEX	\$ 199.4	4.1
KUWAIT PETROLEUM CORP	\$ 183.4	3.8
NATIONAL OIL DISTRIBUTION CO	\$ 177.4	3.7
THE BAHRAIN PETROLEUM CO	\$ 158.2	3.3
LG-CALTEX OIL CORP	\$ 155.8	3.2
REFINERY ASSOCIATES OF TEXAS	\$ 142.2	2.9
TOTAL	\$ 2698.2	55.6%

FY 02

TOP TEN INSTALLATION ENERGY CONTRACTORS*

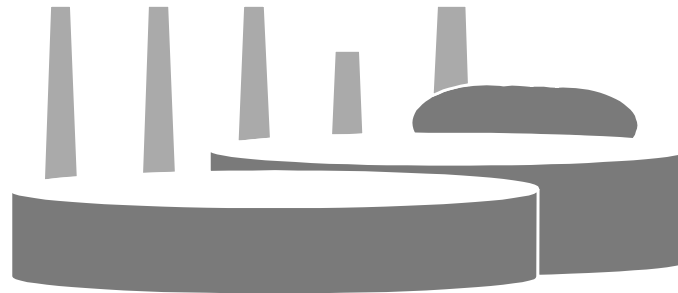
(\$ IN MILLIONS)



* Delivery periods under some awarded contracts vary

DESC MANAGED STORAGE CONTRACTS

FY 02



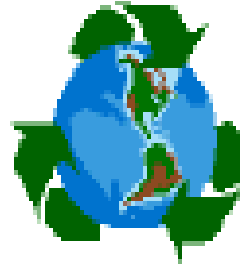
OCONUS			CONUS	
	NUMBER OF CONTRACTS	BARRELS (Storage Capacity) (in millions)	NUMBER OF CONTRACTS	BARRELS (Storage Capacity) (in millions)
COCO	12	7.4	15	4.0
GOCO	7	1.5	8	5.2

*FIGURES REPRESENT ACTUAL CONTRACTS (NOT TERMINALS)

SOURCE: FACILITIES AND DISTRIBUTION MANAGEMENT COMMODITY BUSINESS UNIT

ENVIRONMENTAL CONTRACTS

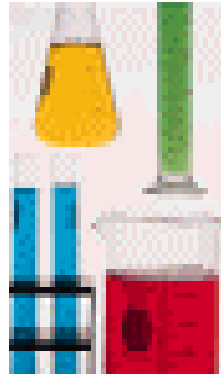
FY 02



- 19 Assessment/Remediation Contracts at DLA-Managed GOCOs
 - 6 Active/13 Inactive
- 5 Environmental Service Contracts
 - Preparation of Environmental Plans
 - Environmental Audits
 - Occupational Safety and Health Services
 - Pollution Prevention Studies and Assessments
 - Oil Spill Response Training

Testing Contracts

FY 02



- 5 Domestic contracts for 27 more locations
- 6 Overseas contracts for 21 more locations

Energy Savings Performance Contracts (ESPC)

Utilizing Memorandum of Understanding
Partnering with DOE to Increase Customer Support

AWARDS - FY 2002

Carlisle Barracks, Pennsylvania - July 17, 2002

- Geothermal Heat Pumps
- Direct Digital Controls
- Heating and Air Conditioning
- Lighting Efficiency Improvements

AWARDS - FY 2001

Aberdeen Proving Ground, Maryland - September 14, 2001

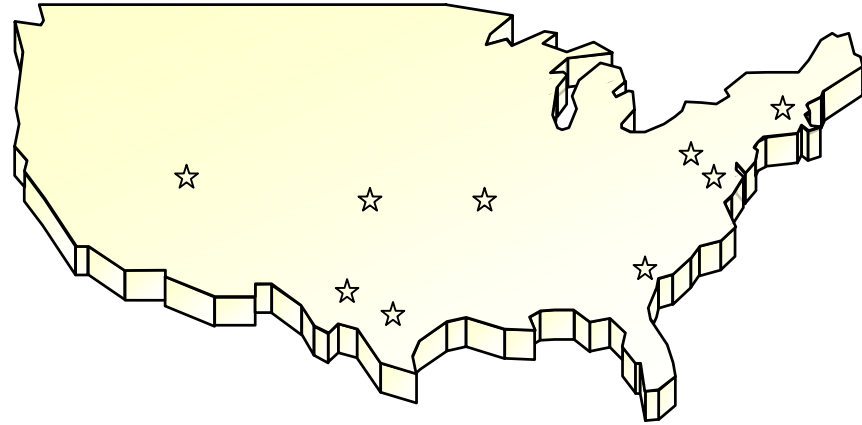
Fort Jackson, South Carolina - September 19, 2001

OTHER AWARDS

- Military District of Washington
- Fort Hamilton, New York
- Fort Jackson, South Carolina
- Aberdeen Proving Ground, Maryland

CURRENT INTER-SERVICE EFFORTS

Fort Leavenworth, Kansas
Fort Bliss, Texas
Fort Hood, Texas
Army Test Evaluation Command, Utah
Air Force Materiel Command, Ohio



The terms "energy savings contract" and "energy savings performance contract" mean a contract which provides for the performance of services for the design, acquisition, installation, testing, operation, and, where appropriate, maintenance and repair of identified energy conservation measure or series of measures at one or more locations. [42 USC 8287c(3)]

"Energy conservation measures" means measures that are applied to a federal building that improve energy efficiency, are life-cycle cost-effective, and that involve energy conservation, cogeneration facilities, renewable energy sources, improvements in operation and maintenance efficiencies, or retrofit activities. [42 USC 8287c(4)]

Source: Energy Enterprise Commodity Business Unit

Utility Privatization Support

Ongoing Actions

In December 1997, the Deputy Secretary of Defense directed the Military Departments to develop plans for privatizing all of their utility systems (electric, natural gas, water and waste water), except those needed for unique security reasons or where privatization is not economical. Since that time, DESC has established a Utility Privatization Team to support the Military Departments in their efforts to privatize on-base infrastructure and acquire safe, reliable utility services along the privatized systems.

Working 565 DoD Systems



Army 192



Air Force 330



Navy 36



DLA 7

Directed in DRID #49, Privatizing Utility Systems (December 23, 1998) and superceded by OSD Guidance (October 9, 2002)

Source: Energy Enterprise Commodity Business Unit

Contracts Awarded

FY 2002

Fort Bliss - Electric awarded to Small Business Coop on Sep 26, 2002 - \$98M

FY 2001

Fort Detrick - Natural Gas awarded Dec 14, 2000
\$1.4M cost avoidance over LCCA

Bolling AFB - Natural Gas awarded Jul 31, 2001
\$800K cost avoidance over LCCA

Minneapolis-St Paul - Natural Gas awarded
Sep 25, 2001 - \$77K cost avoidance over LCCA

Pending Congressional Notification

Picatinny Arsenal
Fort McNair

AIRCRAFT INTO-PLANE CONTRACT AWARDS FY 02

DOMESTIC (CONUS)

- 324 LOCATIONS SUPPORTED
- \$338 MILLION
- 5.6 MILLION BARRELS



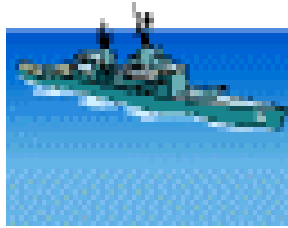
OVERSEAS (OCONUS)

- 182 LOCATIONS (104 Countries) SUPPORTED
- \$232 MILLION AWARDED
- 6.3 MILLION BARRELS

REPRESENTS ACTIVE CONTRACT DATA AS OF 30 SEP 2001

SOURCE: DIRECT DELIVERY FUELS COMMODITY BUSINESS UNIT

CONTRACTS AWARDED FOR SHIPS' BUNKERS PROGRAM FY 02



DOMESTIC (CONUS)

- 86 PORTS UNDER CONTRACT
- \$72 MILLION AWARDED
- 2 MILLION BARRELS

OVERSEAS (OCONUS)

- 124 PORTS in 74 COUNTRIES
- \$109 MILLION AWARDED
- 3.5 MILLION BARRELS

REPRESENTS ACTIVE CONTRACT DATA AS OF 13 Nov 02

SOURCE: DIRECT DELIVERY FUELS COMMODITY BUSINESS UNIT

AUTOMATED FUEL DISPENSING FACILITIES CONTRACT COSTS FY 02 (\$ IN MILLIONS)

FORT BRAGG, NC - JP-8 & MOGAS-INITIAL 5-YR PERIOD: \$4.2

SCHOFIELD BARRACKS, HI - JP-8, DIESEL & MOGAS-INITIAL 5-YR PERIOD: \$4.8

29 PALMS, CA - JP-8, DIESEL & MOGAS-INITIAL 5-YR PERIOD: \$5.6

FORT JACKSON, SC - DIESEL & MOGAS-INITIAL 5-YR PERIOD: \$2.1

FORT STEWART, GA - JP-8, DIESEL & MOGAS - INITIAL 5-YR PERIOD: \$5.6

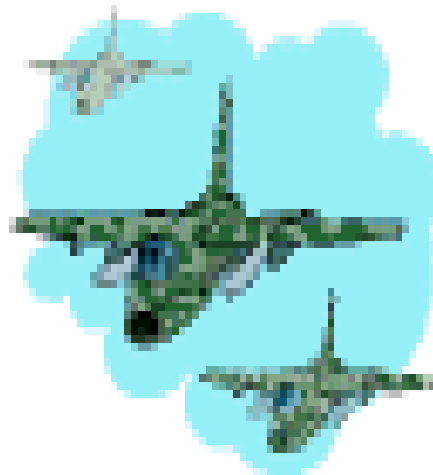
FORT GORDON, GA - DIESEL & MOGAS – INITIAL 5-YR PERIOD: \$2.5

All contracts are written for five years with three five year options.

ALONGSIDE AIRCRAFT REFUELING FY 02

CONUS

- 26 LOCATIONS
- \$106.2 MILLION IN CONTRACTS



OCONUS

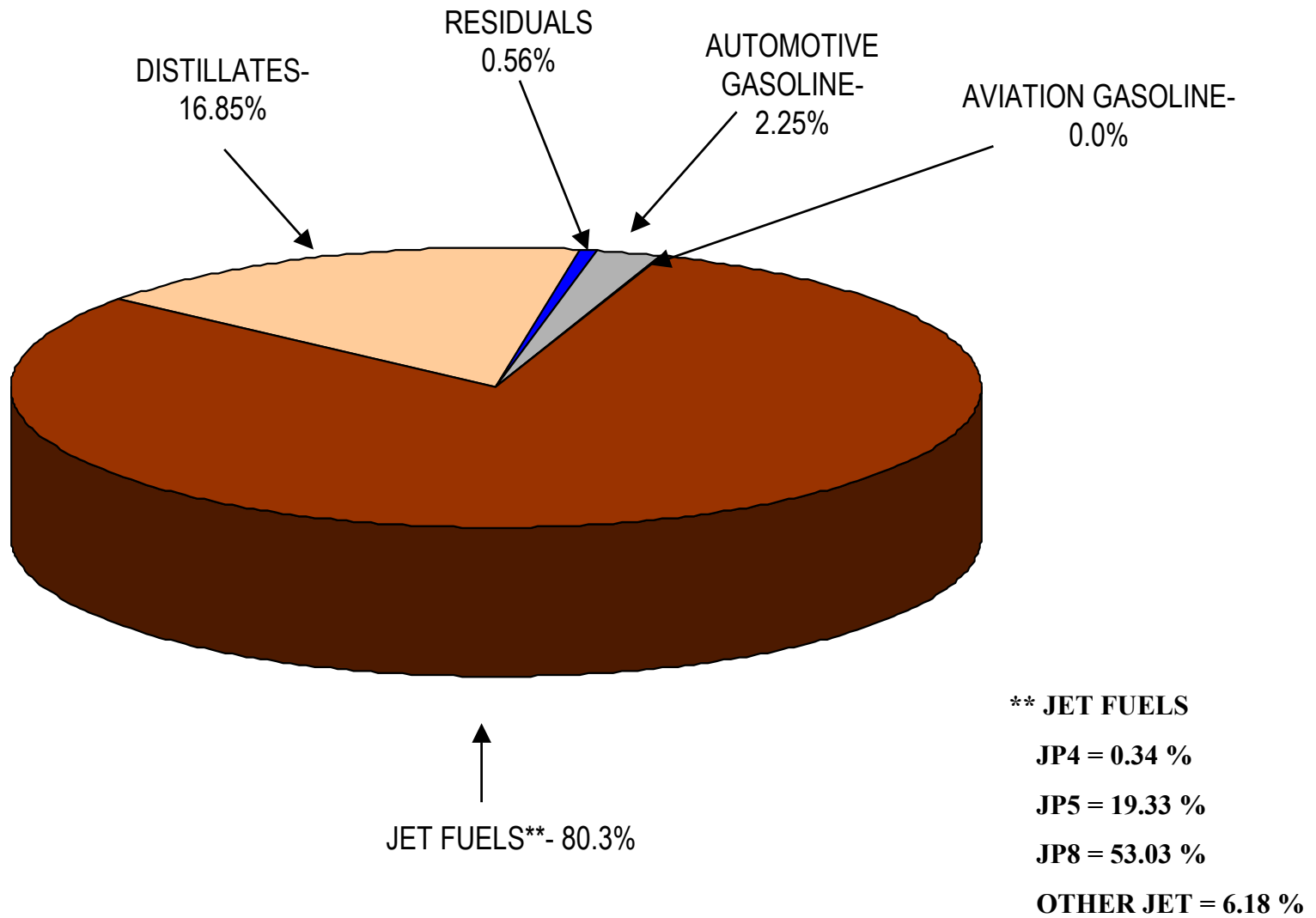
- SOUDA BAY, CRETE
- RHEIN MEIN, GERMANY
- \$1.6 MILLION IN CONTRACTS

FUELS PROCUREMENT

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DESC Petroleum Procurement (Barrels)	50
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Customer Organized Groups Map	53
CONUS & OCONUS Posts, Camps and Stations	54
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PETROLEUM PROCUREMENT-BARRELS

178 MILLION



FIGURES REPRESENT CONTRACT AWARD DATA FOR FY 02 (NOT ACTUAL PURCHASES)

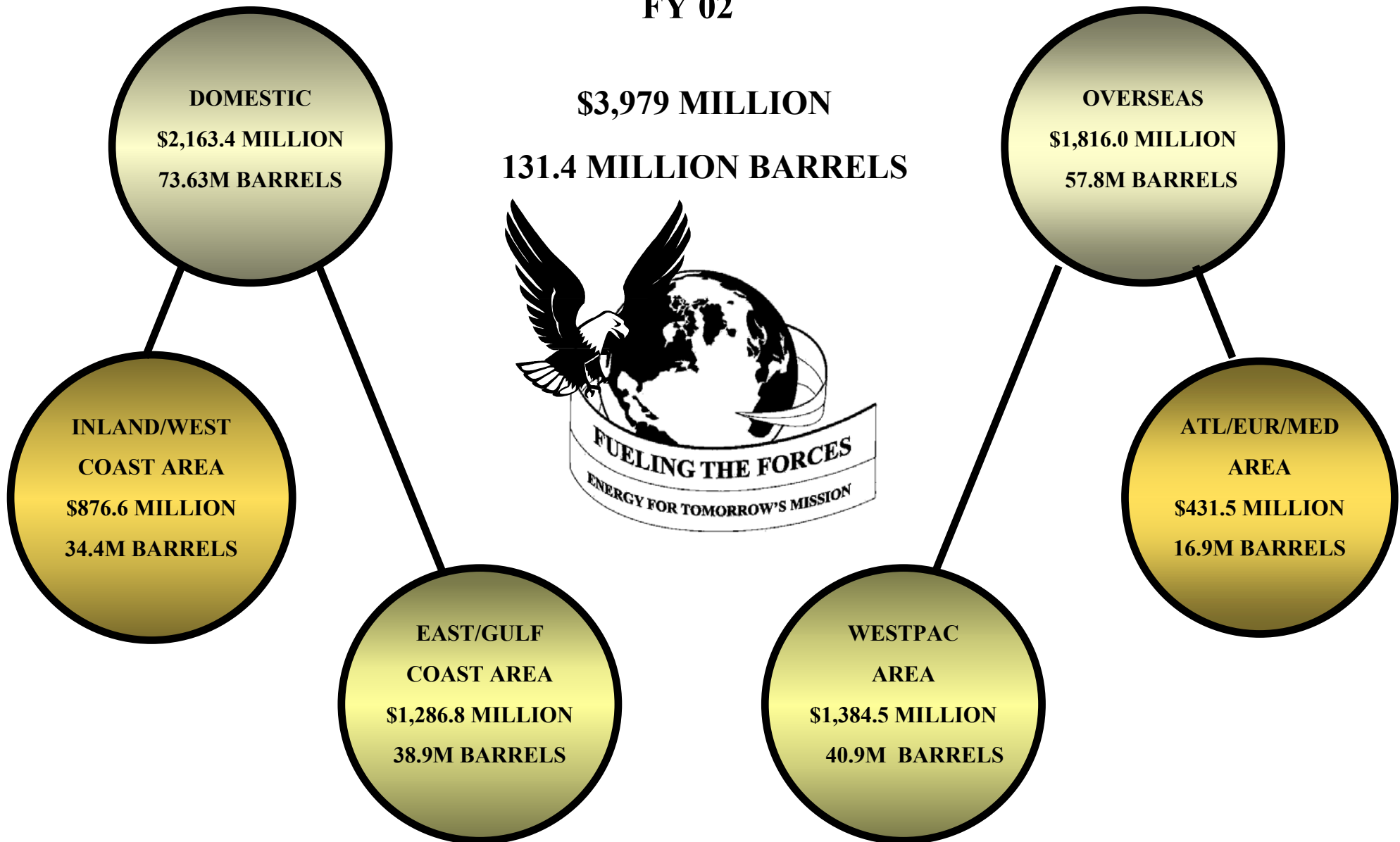
SOURCE: Procurement Planning and Support Division, Procurement Oversight Branch

PETROLEUM PROCUREMENT

BULK FUELS

(Estimated Amounts)

FY 02



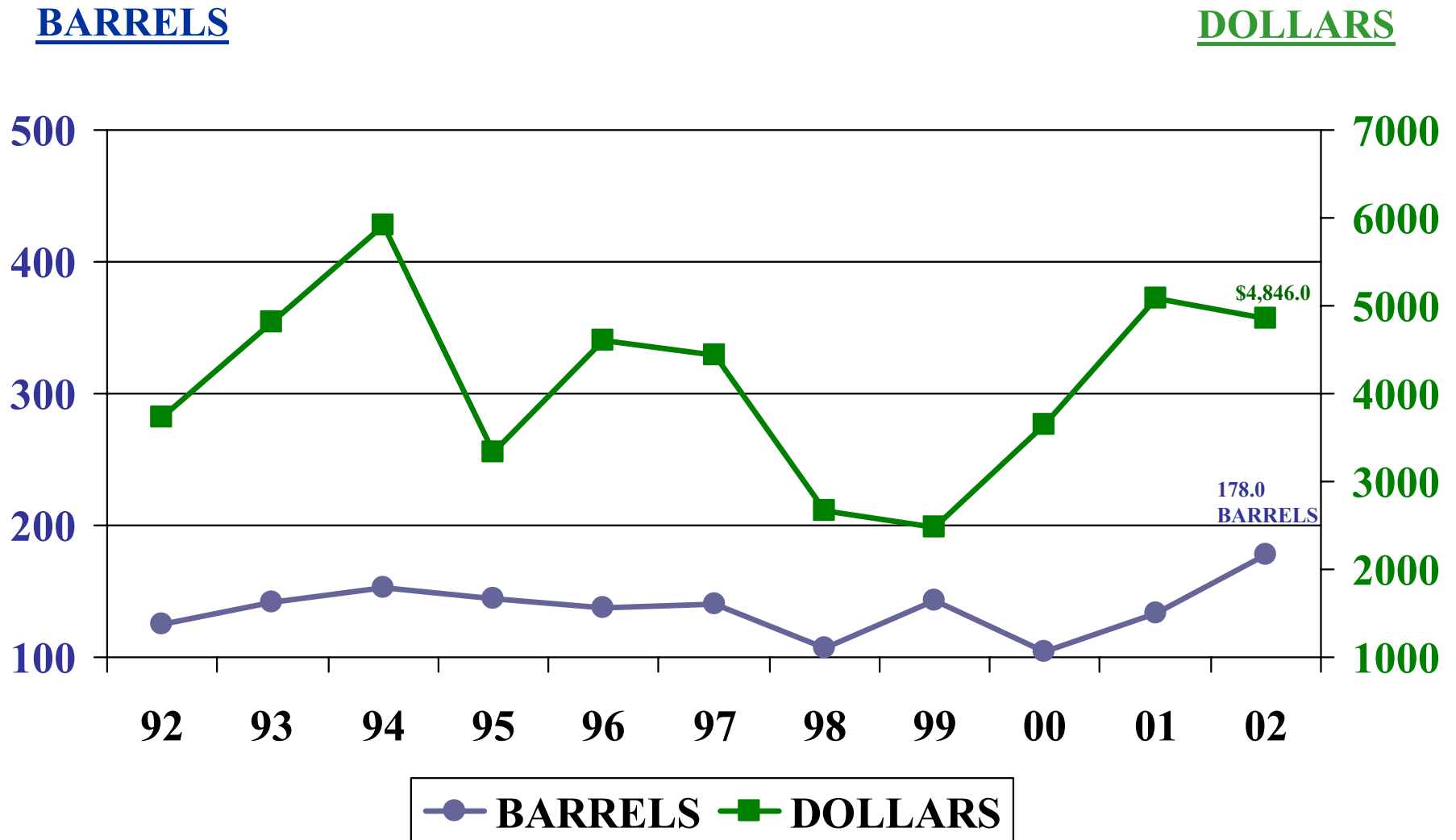
FIGURES REPRESENT CONTRACT AWARDS IN FY 02 (NOT ACTUAL PURCHASES)

SOURCE: Procurement Planning and Support Division, Procurement Oversight Branch

PROCUREMENT HISTORY FY92 – FY02

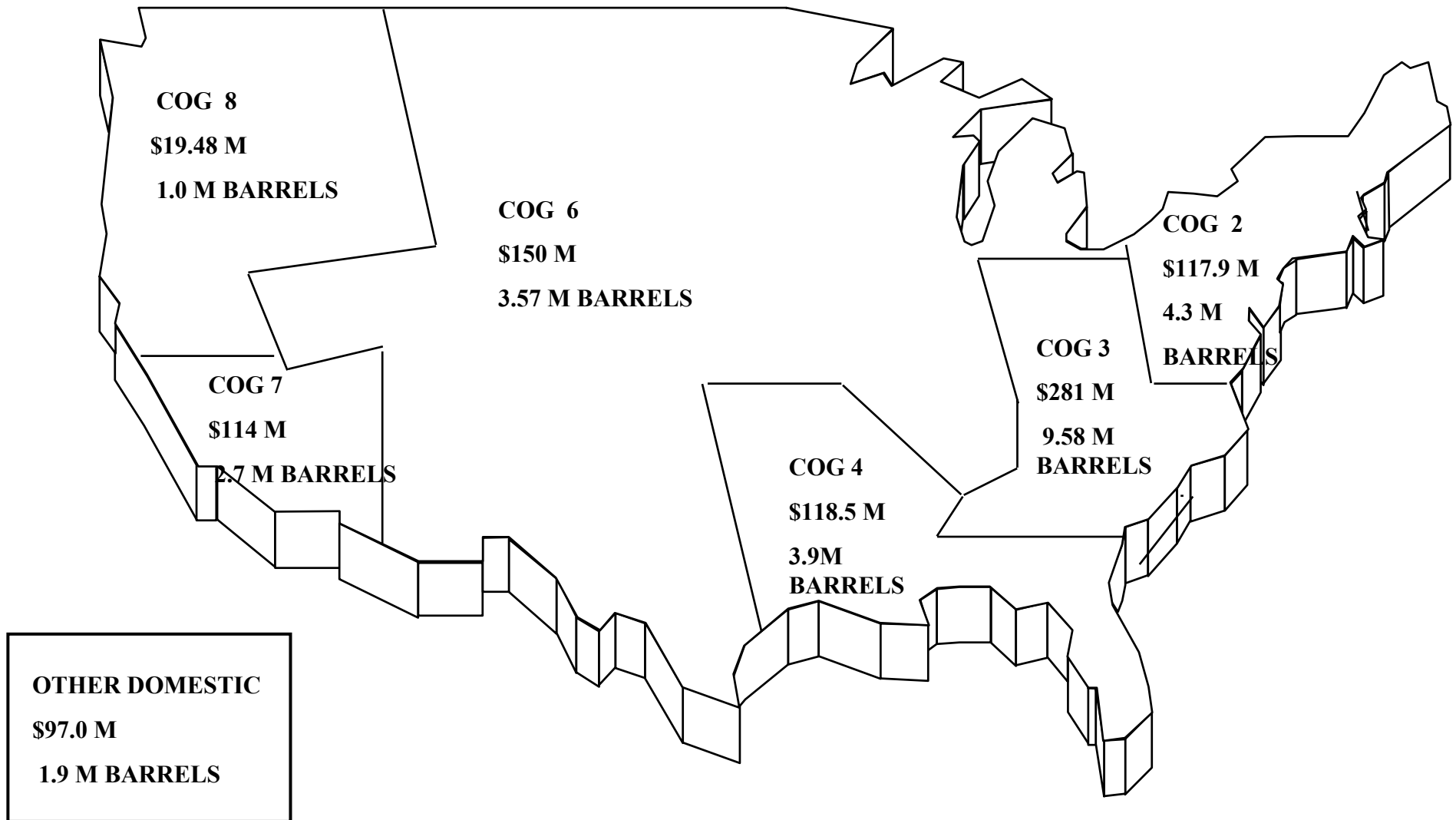
PETROLEUM PURCHASES

QUANTITY AND COST IN MILLIONS



REPRESENTS CONTRACT AWARD DATA FOR FY 02

CUSTOMER ORGANIZED GROUPS (COGs) CONUS POSTS, CAMPS AND STATIONS FY 02



Represents active multiyear contract data awarded as of 30 Sep 02

CONUS AND OCONUS POSTS, CAMPS, AND STATIONS FY 02



Domestic (CONUS)

- 242 CONTRACTS
- 1934 ACTIVITIES
- \$898 MILLION
- 26.7 MILLION BARRELS

Overseas (OCONUS)

- 48 CONTRACTS, 28 COUNTRIES
- 540 LINE ITEMS
- \$370 MILLION
- 8.8 MILLION BARRELS

REPRESENTS ACTIVE CONTRACT DATA AS OF SEP 30, 2002

SOURCE: DIRECT DELIVERY FUELS COMMODITY BUSINESS UNIT

COAL

FY 02

SUMMARY OF PROCUREMENT

**SHORT
TONS**

**REQUIREMENT
DOLLARS**

ARMY

254,400

\$13.7 Million

AIRFORCE

284,970

\$14.8 Million

NAVY

134,100

\$ 8.2 Million

OTHER

41,300

\$ 2.6 Million

TOTAL

714,770

\$39.4 Million

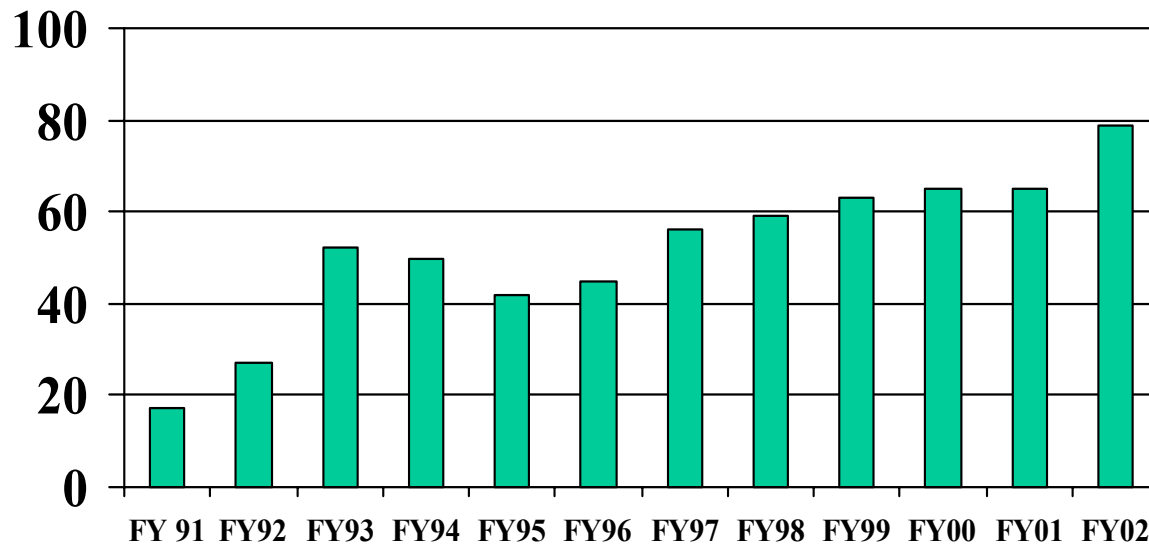
COST AVOIDANCE/SAVINGS

TITLE	PAGE
Federal Agencies	56
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Demurrage Collected	60
Reported Credit Card Savings	61

Federal Civilian Agencies

NATURAL GAS PARTICIPATION & COST AVOIDANCE

HISTORICAL PARTICIPATION



FEDERAL CIVILIAN AGENCY COST AVOIDANCE

FY 91 - FY 02 = \$85.5M

FY02 Federal Civilian Agency Participants

DOE	20
Veterans Administration	21
Department of Justice	10
NASA	5
Others	23

Total	79
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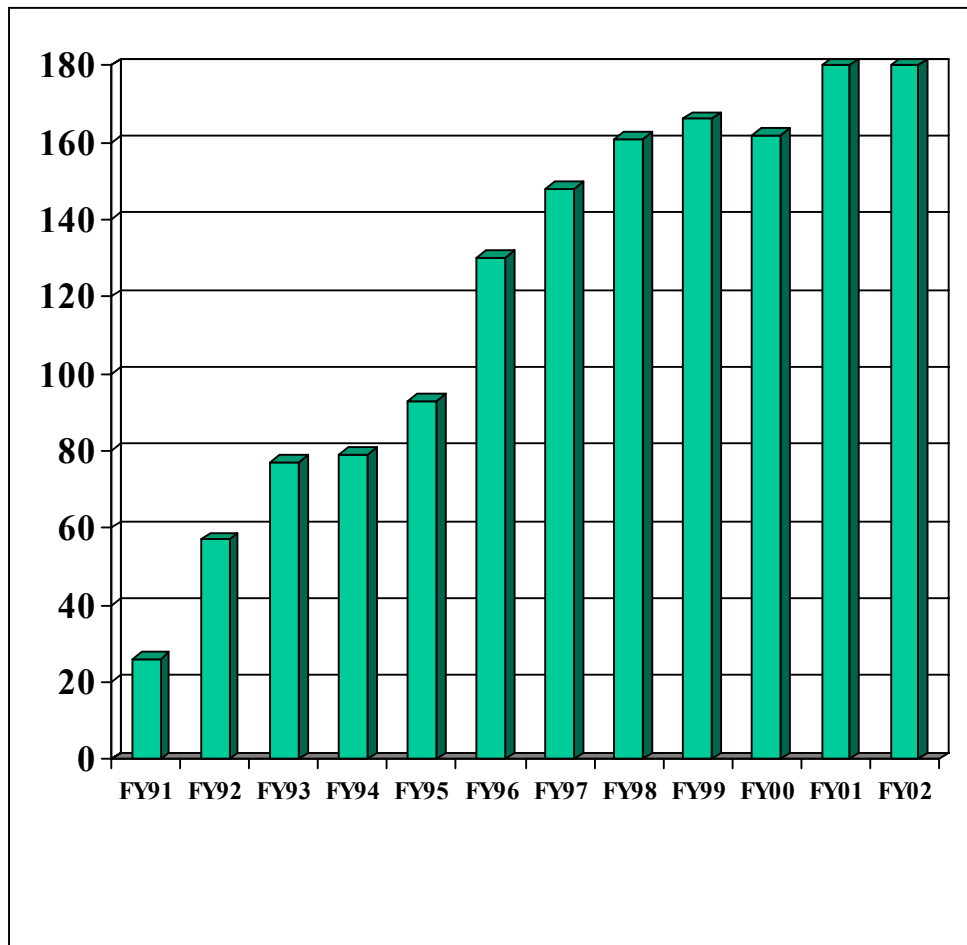
By partnering with DESC to procure direct supply natural gas, civilian agencies saved over \$10.4 million in FY02.



Department of Defense

NATURAL GAS PARTICIPATION & COST AVOIDANCE

DoD Participation



DoD Natural Gas Cost Avoidance

	FY91-01	FY 02	Total
Army	\$ 93.5	\$ 12.6	\$ 106.1
Navy	\$ 76.7	\$ 6.3	\$ 83.0
Air Force	\$ 58.2	\$ 6.9	\$ 65.1
Other DoD	\$ 7.9	\$ 2.5	\$ 10.4
Total	\$236.3	\$ 28.3	\$264.6

(Dollars are in Millions)

FY 02 DoD Participants

Army	69
Navy	49
Air Force	48
DoD	14

Total	180
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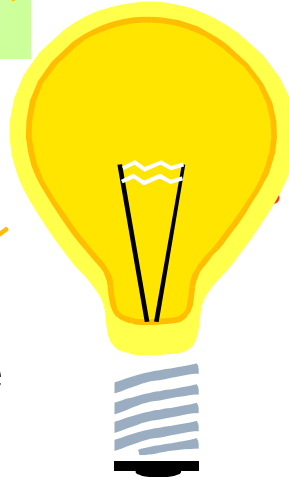
DESC's Competitive Electricity Program

Cost Avoidance

	FY99	FY00	FY01	FY02	TOTAL
CA	\$722K	\$1,346K	\$2,566K		\$4,634K
PJM*	\$165K	\$1,066K	\$2,935K		\$4,166K
ME		\$6K	\$229K		\$235K
TX				\$27,000K	\$27,000K
TOTAL	\$887K	\$2,418K	\$5,730K	\$27,000K	\$36,035K

*PJM – Represents awards in PA, NJ, MD, DE, DC

In addition to the above awards, RFP's have been issued in NY, DE, IL, RI, CT, OH and MI. Under these procurements, the incumbent utility was determined to be the "best value."



Experience in all states in which deregulation/restructuring has occurred and in which requirements have been received.

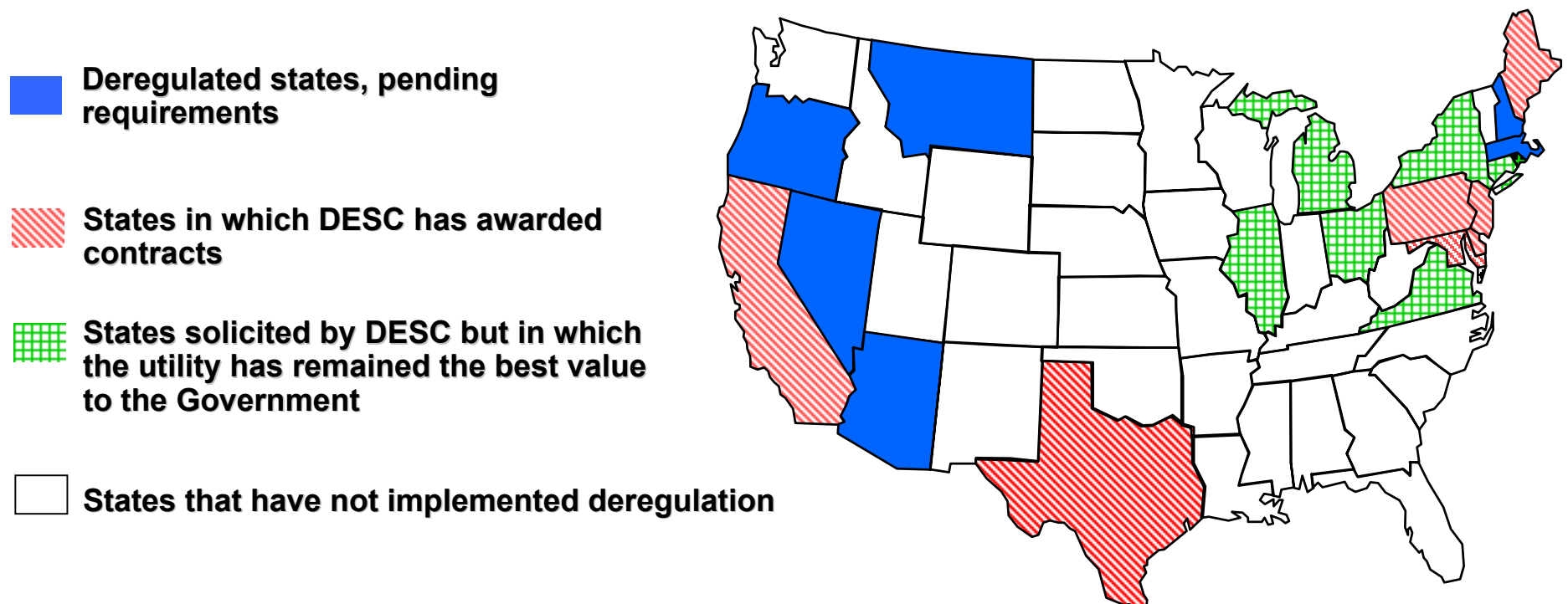
Customers

Army	27
Navy/	
Marine Corp	121
Air Force	12
Army Res.	261
ANG	3
Other DoD	5
Fed Civ.	25
Coast Guard	7
TOTAL	461

DESC's Competitive Electricity Program (cont)

1994 - DFSC began monitoring electricity deregulation in anticipation of the market being opened.

DESC, in partnership with the Military Services, has been contracting for deregulated electricity since May 1998.



DEMURRAGE COLLECTED

(\$ IN MILLIONS)				
<u>FISCAL YEAR</u>		<u>TOTAL</u>	<u>FISCAL YEAR</u>	<u>TOTAL</u>
2002		\$2.4	1996	\$1.2
2001		\$1.6	1995	\$1.8
2000		\$3.1	1994	\$0.6
1999		\$1.3	1993	\$1.3
1998		\$4.2	1992	\$3.2
1997		\$2.0	1991	\$1.4

SOURCE: BULK FUELS COMMODITY BUSINESS UNIT

REPORTED CREDIT CARD SAVINGS

FY 02



AIR Cards:

Cards Issued:	13,203
Gross Sales:	\$88.6
Net Sales:	<u>\$78.8</u>
Savings:	\$9.8

AIR Card savings attributed to negotiated discounts off posted prices.



Fleet Cards:

Cards Issued:	59,078
Gross Sales:	\$29.7
Net Sales:	<u>\$27.3</u>
Savings:	\$2.4

Voyager savings from quantity discounts and direct tax rebates.

MISSILE FUELS

TITLE	PAGE
Missile Fuels Business Profile	62
Missile Fuels Product Line Overview	63
Missile Fuels New Emerging Products	64
Missile Fuels Customer Profile	65
Missile Fuels Major Program Support	66
Missile Fuels Largest DoD Customer	67
Missile Fuels Largest Fed Civ Customer	68
Missile Fuels Number of Shipments	69
Missile Fuels Top Ten Contractors	70

Missile Fuels Business Profile

❑ 92 total NSNs – 64 Active Products

- ❖ All support DoD programs, weapons systems and/or space programs
- ❖ Designated DoD IMM
- ❖ Also support commercial contractors under Space Launch Act authority

❑ 19 Controlled Storage Points (CSP)

❑ \$73.8 Million in Contract Obligations*

❑ 77 contracts

- ❖ 69 for product
- ❖ 8 for services, including transportation

*Down from earlier projections due to delays of scheduled launches

Missile Fuels – Product Line Overview

□ Three categories of products

❖ Propellants – 3 types

➤ Hypergols

- ✓ Hydrazine – 7 grades
- ✓ N_2O_4 – Oxidizer

➤ Liquids

- ✓ Priming Fluid (PF-1)
- ✓ RP-1
- ✓ Isopropyl Alcohol (IPA)
- ✓ Hydrogen Peroxide (H_2O_2)
- ✓ Inhibited Red Fuming Nitric Acid (IRFNA)
- ✓ JP-10

➤ Cryogenic

- ✓ Liquid Oxygen (LOX)
- ✓ Liquid Hydrogen (LH_2)

❖ Non-Propellant Cryogenics

- Liquid Nitrogen (LN)
- Liquid Air
- Liquid Argon
- Liquid Helium

❖ Gases

- ✓ Nitrogen
- ✓ Argon
- ✓ Helium
- ✓ Hydrogen
- ✓ Gaseous Deuterium (D_2)
- ✓ Nitrogen Trifluoride (NF_3)
- ✓ Fluorine
- ✓ Xenon
- ✓ Krypton
- ✓ Neon



DESC Missile Fuels

New Emerging Products

- ❑ Hydrogen Peroxide (H_2O_2) – Air Force, Army, Navy, NASA
- ❑ Dimethylaminoethylazide (DMAZ) (hydrazine replacement)-
Navy, Air Force
- ❑ Pyrollidinyethylazide (PYAZ) (hydrazine replacement) –
Navy, Air Force
- ❑ Hydroxyl ammonium nitrate (HAN) – Air Force
- ❑ JP-7 novel use for scramjet – Air Force, NASA
- ❑ RP-1/RG-1 upgrade – Air Force
- ❑ Gels for RP-1, IRFNA, MMH, JP-10, HAP – Air Force,
Navy, NASA, Army
- ❑ Phase change material solid to liquid (JP-10 baseline) –
Navy

Missile Fuels Customer Profile

	#	%
<input type="checkbox"/> DoD		
Air Force	260	45%
Army	35	6%
Navy	18	3%
USMC	6	1%
DoD Commercial	87	15%
Subtotal DoD	406	70%
<input type="checkbox"/> Federal Civilian		
NASA	48	8%
DOE	15	2%
Other	3	1%
Commercial	18	3%
Subtotal Federal Civilian	84	14%
<input type="checkbox"/> Commercial		
Non-Government	85	15%
Total	575	100%

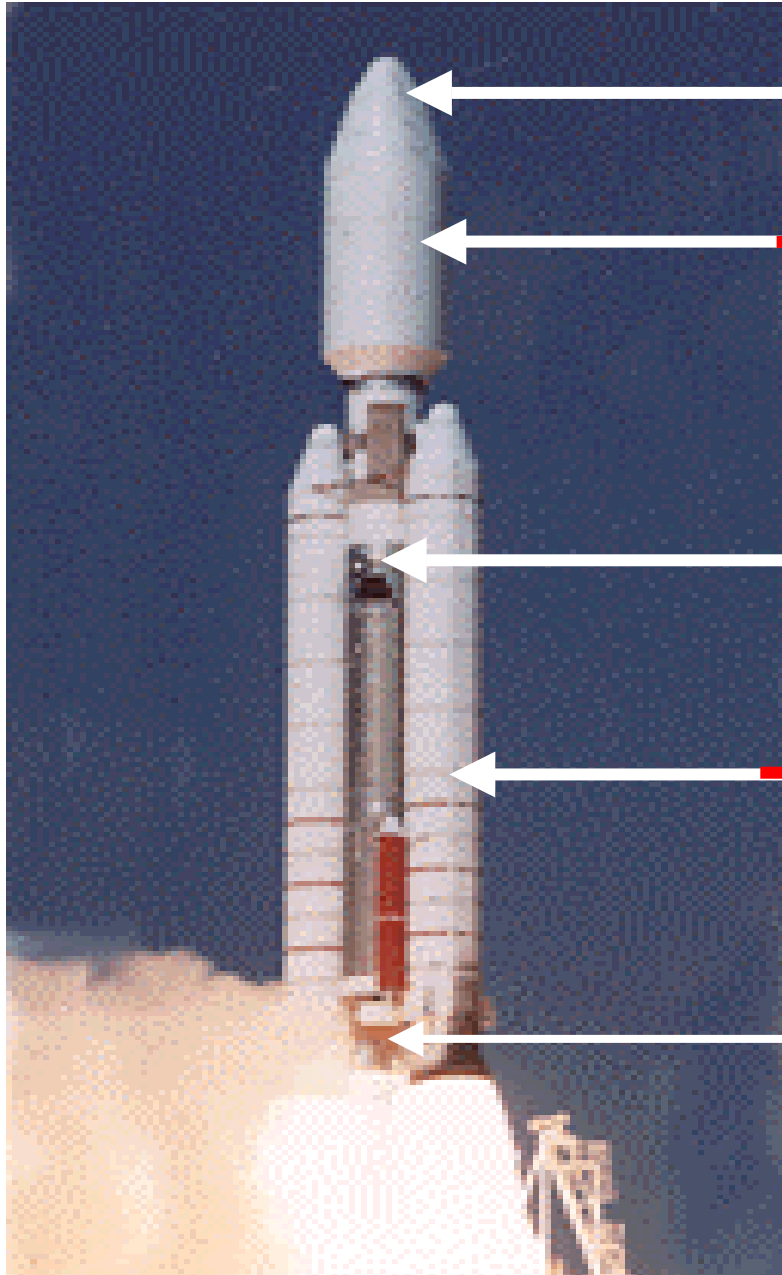
SOURCE: Missile Fuels CBU

Major Programs Supported by the Missile Fuels CBU

- ❑ USAF Titan, Delta and Atlas - and commercial follow-on – the “EELV” (Evolved Expendable Launch Vehicle)
- ❑ F-16 Emergency Power Unit
- ❑ F-15/F-16 Air Intercept Missile, Avenger, Sidewinder
- ❑ All Cruise Missiles – Navy Tomahawk, Harpoon, & USAF’s ALCM/ACM
- ❑ AIM9 and Stinger Missiles
- ❑ US Army 37C Drone and Lance Missiles
- ❑ Fiber Optics Guided Missile (R&D)
- ❑ USAF U-2
- ❑ All Wind Tunnels
- ❑ All DoD Laser Programs
- ❑ All Space-Based Weapons (R&D)
- ❑ NASA Space Shuttle
- ❑ International Space Station

Largest DoD Customer - USAF

TITAN IVB



PAYLOAD

CENTAUR UPPER STAGE
PROPULSION: TWO P&W RL 10A-3-3A
PROPELLANT: LH2
LO2
THRUST: 33,000 LBS

CORE VEHICLE
PROPELLANT MASS 1,700,000 LBS

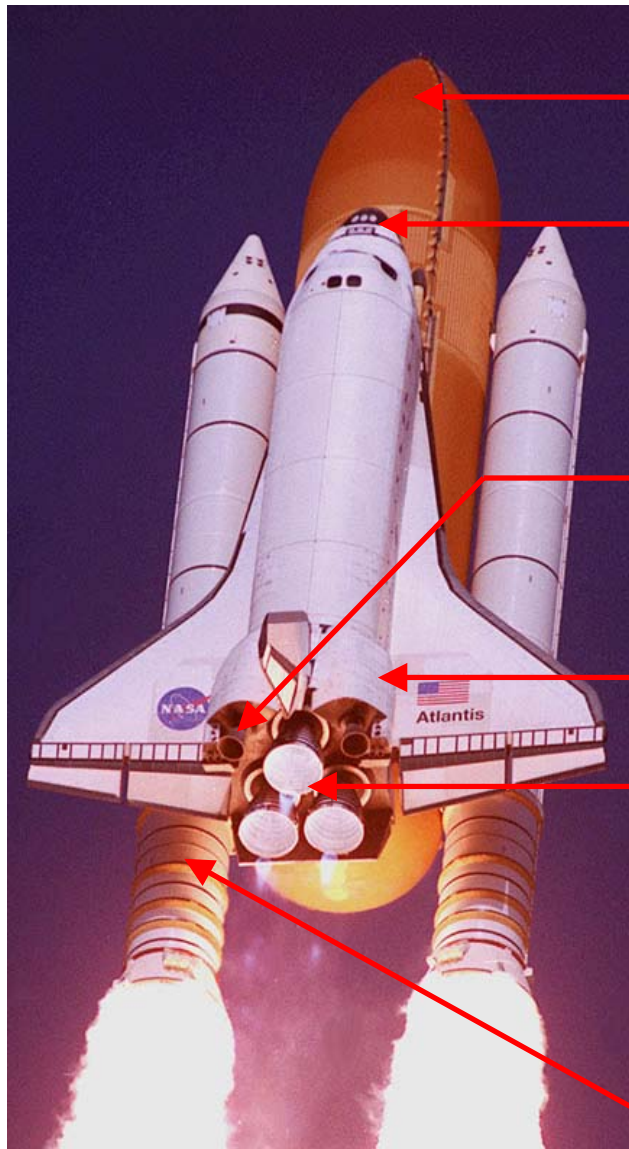
SOLID ROCKET MOTOR
THRUST: 1,600,000 LBS
PROPELLANT: 84% PBAN
TVC: N2O4

LIQUID ROCKET ENGINE (LRE)
STAGE I- THRUST: 548,000 LBS
PROPELLANT: N2O4
AH 50

STAGE II- THRUST: 105,000 LBS
PROPELLANT: N2O4
AH 50

Largest Federal Civilian Customer - NASA

Space Shuttle



EXTERNAL TANK

LO2 – 1,332,000 LBS (NASA)
LH2 – 279,697 LBS (NASA)

FORWARD REACTION CONTROL SUBSYSTEM

N2O4 – 1488 LBS
MMH – 930 LBS

ORBITAL MANEUVER SYSTEM

N2O4 – 14,866 LBS
MMH – 9,010 LBS

AFT REACTION CONTROL SUBSYSTEM

N2O4 – 2,976 LBS
MMH – 1,860 LBS

SOLID ROCKET BOOSTERS

16% POWDERED ALUMINUM
70 % AMMONIUM PERCHLORATE
0.17% IRON-OXIDE POWDER
12% POLYBUTABINE-ACRYLIC ACID-
ACRYLONITRILE TERPOLYMER
(PBAN)
2% LIQUID EPOXY RESIN

THRUST

MAIN ENGINES
470,000 LBS VACUUM
SOLID ROCKET BOOSTER (2)
2,900,000 LBS
ORBITAL MANEUVERING SYSTEM
6,000 LBS VACUUM (2)
REACTION CONTROL SYSTEM
870 LBS VACUUM
(38) THRUSTERS
25 LBS VACUUM
(6 VERNIERS)

Missile Fuels Transportation

Number of Shipments

Product	Bulk Trailer	Bulk Rail	Bulk Fuel Container	Vessel	Truckload Drum/Cylinder
Argon					241
NF ₃	14				
Helium	438				45
Hydrazines	67				61
JPTS*	42	138	18	1	
JP7	15				
JP10	18				42
N ₂ O ₄	17	6			54
PF1					2
RP1	46				
TOTALS	657	144	18	1	445

*JPTS Mission transferred to Bulk Fuels CBU effective FY03

Missile Fuels Top Ten Contractors

1. Mississippi Chemicals	\$25,000,000	
2. AGE	\$18,000,000	
3. SK Global	\$11,000,000	
4. Air Products	\$ 9,000,000	
5. Arch Chemicals	\$ 6,000,000	(Dollar amounts are rounded)
6. BOC Gases	\$ 4,000,000	
7. Praxair	\$ 900,000	
8. Columbiana Boiler	\$ 500,000	
9. Matheson Tri-Gas	\$ 300,000	
10. Air Liquide	\$ 100,000	

SOURCE: Missile Fuels CBU



DESC's "THE BEST OF"

TITLE

PAGE

Highlights of FY 2002

71-79

DEFENSE ENERGY SUPPORT CENTER

HIGHLIGHTS FOR FY02

Optimization: This year's Optimization Studies have had a regional focus on the East, West and Florida Gulf Coast areas, and have been expanded by DESC's assumption of the funding responsibility for the operation of the six Navy deep water terminals at Pearl Harbor, San Diego, Puget Sound, Norfolk, Jacksonville and Yokosuka. DESC-FL Optimization Division comprises a small core of systems analysts who function as project managers for petroleum storage and distribution optimization studies. Study teams take their shape from the study content, and consist of site and Service representatives, and the wide scope of DESC technical expertise. The teams encourage a "partnership" with our Service customers, and they use a broad, integrated study approach, crossing into many of DESC and Service petroleum business functions.

AIR Card Program : The Aviation Into-plane Reimbursement (AIR) Card Program, coupled with DESC's extensive Into-plane contract coverage, continues to provide the "warfighter" and all other DESC customer's expanded options to meet refueling and ancillary services needs worldwide. Through the use of "best" commercial practices, i.e., Electronic Data Interchange (EDI) for billing and program management purposes, DESC customers have realized savings to date in the excess of \$30 Million. The cost of the program to date is \$3 Million. This substantiates the success of the program from the customer's fiscal standpoint. Centralized payment for fuel through DFAS-Columbus has been a success by almost eliminating delinquent payments and interest penalties. Hence DESC remains dedicated to eventually implementing a "one-card" concept for all aviation fuels and related needs. Currently, the AIR Card is being tested at select Military Installations in an effort to eventually implement a "one-card" solution for all aviation fuel needs. The AIR Card continues to be DESC's most visible and recognized symbol – known worldwide, and is a mainstay of DESC's future business practices.

DOD Fleet Card Program: As the primary office responsible for the DoD Fleet Card Program, DESC has partnered with US Bank to expand our ability to deliver world-class service to its ground fuels customers. The Fleet Card has been issued to over 54,000 customers and is currently accepted at over 155,000 service stations for fuel support and an additional 29,000 facilities for vehicle maintenance. In some cases, a DoD Fleet Visa card has been issued to overseas customers, as DoD is a mandatory user of the GSA Smart Card contract. The DoD Fleet Card Program enables DESC to utilize modern business practices to serve our customers, while we continue to work towards electronic acceptance of the Voyager cards at military installations for acceptance of both DoD owned and GSA leased vehicles. For fiscal year 2002, pump discounts of .03-.05 cents from Speedway SuperAmerica LLC gas stations equated to over \$16,000, and rebates from US Bank exceeded \$6,000. Electronic initiatives regarding transactional and billing data that began in January 2002 have helped to make the program more cost effective. One example is the centralization of all fuel payments, which drastically reduced DoD payment penalties and delinquencies. As DESC gains more efficiency under the DoD Fleet Card Program, it will translate into lower operating costs to customers.

Ships' Bunkers Easy Acquisition (SEA) Card : DESC will soon be implementing an electronic internet based payment mechanism and charge card process for purchasing Ships' Bunker fuel at commercial sea ports worldwide. DESC has worked with GSA to include large vessels under the GSA SmartPay Master contract for "fleet card" to include large vessels for bunker type purchases. A specially designed SEA Card (or a virtual card, i.e., account number) will be issued to each ship that obtains bunker fuel at any commercial seaports around the world. The SEA Card follows in the footsteps of the AIR Card to provide fleet commanders and fiscal officers with real time consumption data, electronic ordering, invoicing and certification, and will also assist DESC documenting historical lift data needed for follow-on bunker fuel contracts. The SEA Card Program will be phased-in approximately mid-FY03 with the issuance of new Bunker contracts and will replace the "magstrip" program and the paper transaction process that the Navy and Coast Guard have had to use in the past. A task order against the GSA SmartPay contract was signed January 2003 that allows for electronic data integration with the Fuels Enterprise System for direct customer oversight. The target date for the first phase of the SEA Card at bunker contracts is set for October 2003.

Utility Privatization: In the fourth quarter of FY 2002, the Energy Enterprise Office, Utility Privatization Branch, awarded a 50-year contract with Rio Grande Electric Cooperative, Inc. to privatize the electric distribution system at Fort Bliss, Texas. The contract was the first competitively awarded utility privatization effort at DESC and is a major accomplishment for the Department of the Army and the Assistant Chief of Staff for Installation Management. This was part of a program to turn over the ownership and operation of defense utilities to commercial providers when cost effective and not contrary to security requirements. The contract value of \$98,071,464 results in an annual cost avoidance of \$1.3 million.

Energy Savings Performance Contracts: In the first quarter of FY 2002, the Energy Enterprise Office, Energy Conservation Contracting Support Branch executed the award of an ESPC to XENERGY Inc. for Fort Hamilton, NY. A Delivery Order was issued against a Department of Energy Indefinite Delivery-Indefinite Quantity contract for a total of three energy conservation measures: lighting system upgrades, energy management control systems and water measure improvements for a total guaranteed cost savings of \$7,357,793 and total contractor payment value of \$7,357,778 for a performance period of 15 years. In the fourth quarter of FY 2002, DESC also executed the award of an ESPC to Energy Performance Services, Incorporated for the U.S. Army War College at Carlisle Barracks, PA for a total of four energy conservation measures: geothermal heat pumps, direct digital controls, heating and air conditioning and lighting efficiency improvements for a total guaranteed cost savings of \$16,352,880 and total contractor payment value of \$16,349,480 for a performance period of 17 years.

Coal: FY02 was a quiet year for the DESC Coal Team. The market was more stable than the previous year and prices fell slightly. As a result, this year's awards were \$1.2 million less than FY01 awards for installations in the lower 48. In Alaska, another multi-year (5-year) contract was awarded to supply Ft. Wainwright, Clear Air Force Station and Eielson. Although this new contract award resulted in a slightly higher price per ton, negotiated terms and conditions concerning "out of specification coal" were more favorable to the government. In addition, a firm fixed delivered cost for the full contract term was secured.

Electricity Procurement Initiative: Since the inception of the Electricity Program, DESC has been active in all states in which competitive electricity acquisition is permitted, and for which we have received requirements. During FY02 DESC issued solicitations for New York, Illinois, Maine, Texas, Pennsylvania, Ohio, Michigan, New Jersey, Delaware, Maryland and the District of Columbia. The Electricity Team currently has contracts in place for competitive power in DC, MD, TX. The DESC Electricity Team continues to work closely with our customers and with industry to evaluate and refine the way we conduct business so as to provide maximum support for our customers and to conduct business that closely mirrors commercial industry practice.

Spill Prevention, Control and Counter Measures (SPCC) Plan Review and Update: The Environmental Protection Agency Amendments to 40 CFR Part 122 requiring review and update of SPCC Plans caused a dramatic increase in the use of the DESC-F contract for Environmental Document Revisions at facilities storing DLA/DESC-owned petroleum products. The amendments were published in July 2002, and became effective on August 16, with reviews and updates due prior to February 16, 2003. As of the end of calendar year 2002, fifty Army, Navy, Marine, and Air Force installations need revised plans. The Document Revisions Contract is managed jointly with DESC-FQ performing technical review of work proposals and DESC-FP performing contracting review and management. Our objective is to update the plans needing revision before February 16, 2003.

Direct Delivery Operation Enduring Freedom Support: Direct Delivery's Specialty Fuels Division-Into-Plane Branches were instrumental in awarding several mission essential requirements for Operation Enduring Freedom. Contracts were established in Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan. Contracts were awarded at airports and for support of military operations at forward operating locations. The Into-Plane Branches overcame several obstacles in setting up contracts in the Consolidated Independents States (the "Stans"): lack of reliable supplier base, constantly changing requirements, lack of working capital by the commercial airports' fixed base operators, extremely long lead times for re-supply, and resolution of various issues associated with use of Russian-grade jet fuel. In responding to customer requirements, the Into-Plane Branches' creative thinking and innovative contracting methods proved invaluable for the planning and support of these mission-essential locations.

Ships Bunkers Initiatives: Direct Delivery's Bunker Branch contracted for JP-5 for the first time in support of the United States Coast Guard in Manta, Ecuador. The fuel is to be pumped aboard the Coast Guard cutters for use in helicopters. In addition, numerous emergency buys have been performed around the world to support the services' short-fuse requirements. Finally, Bunkers is involved in the transition to a paperless ordering and invoicing system. This initiative will replace the expired Magstrip program. Orders will be placed via the Internet using a credit card. The new credit card ordering system will help to eradicate many payment and ordering problems due to the electronic capture of data.

Expansion of Ground Fuels Bio-diesel Support: In accordance with the Energy Policy Act of 1992 and Executive Order 13149, DESC Ground Fuels continues to expand its support of this policy with purchases of 970,000 gallons of Bio-diesel for 15 military bases in 11 states, which include Air Force, Navy, and Marine Corps installations. In addition to the military, DESC is supporting requirements for several Federal Civilian agencies: NASA, US Postal Service, and the Departments of Interior and Agriculture, with a combined 796,000 gallons of bio-diesel.

Direct Supply Natural Gas: In FY02, the Installation Energy Direct Supply Natural Gas Program (DSNG) saved more than \$38.7M for customers receiving gas supplies from DESC contractors versus their local utility. Customer cost avoidance rebounded from FY01 levels as the price for natural gas at Henry Hub for FY02 decreased, on average, 43% as compared to FY01 prices. In addition, for the first time in program history, many of DESC's natural gas customers opted for 3-year contracts as a means of building stronger supplier relationships and securing more stabilized pricing through the use of price conversion and/or fuel switching options.

Pipeline Expansion Project Increases Throughput Capabilities at DFSP Houston, TX: Pipeline improvements at DFSP Houston for outbound shipments on the Texas Eastern Products Pipeline Company (TEPPCO) pipeline were completed as of 20 September 2002, increasing delivery capability to over 7,500 barrels per hour (bph) from DFSP Houston (Williams Terminal) to the TEPPCO pipeline. The improvements, utilizing the Colonial-Explorer (COLEX) flush line connection to TEPPCO's Centennial pipeline junction verses utilization of the Williams Terminal Pipeline, have increased the shipment rate from 2,500 bph to 7,500 bph, eliminating scheduling constraints with the Terminal Pipeline and the displacements of the various line sections.

DESC AMERICAS Implements FAS: DESC Americas West continued their participation in the stand-up of the Fuels Automated System (FAS). This consisted of interfacing with the many components of this dynamic system such as Bulk PORTS, FAS Enterprise Server (FES02), and Energy Downstream (ED) to include the Discoverer application. Lots of good communication and teamwork between the field office and the Center resulted from this effort. This culminated in a successful migration from the Defense Fuels Automated Management System (DFAMS) that had been DESC's System of Record for approximately 20 years on Oct 1, 2002.

DESC AMERICAS Supports POLEX/WATEX 02: POLEX is an annual petroleum and water exercise that operates CONUS-wide, using a mix of forces to provide Class III bulk and water to U.S. Forces in the CONUS Theater of Operations. During this year's POLEX, U.S. Army petroleum transportation units lifted 6.8 million gallons of JP-8 from 14 DFSPs and transported the fuel to 44 customers by military tank truck. They also safely stored 450,000 gallons of JP-8 in FSSPs at six different locations. The exercise was run by the 475th Quartermaster Group (Petroleum & Water), which for the first time operated a mini-forward command element west of the Mississippi River. Non-petroleum aspects of the exercise included LANES training and water purification. POLEX 02 trained over 5,000 soldiers, involving 133 units in 25 states. The Commander, 475th Quartermaster Group, oversaw all aspects of the exercise that ran from 17-28 Jun 02. DESC Americas nominated fuel quantities at designated DFSPs, refineries, and delivery points. DESC Americas also performed quality pre-inspections on tank trucks at their home stations prior to STARTEX. On the first day of this year's exercise, designated as "Quality Day," DESC conducted fitness-to-load inspections with an overall pass rate of 98%, the highest ever of any POLEX. POLEX 02 generated a transportation cost avoidance to DESC of over \$260,000.

DESC AMERICAS Expands Americas Contingency Energy Solutions (ACES) Program: ACES is an emergency fuel transportation contingency plan that uses military tank trucks to supply DESC customers in the event of an interruption in commercial transportation services. Currently, there are 2,820 Army tank trucks in the Active Army, Army Reserve, and National Guard throughout CONUS available to support DESC's contingency plan. A Memorandum of Agreement (MOA) was developed to enable Army petroleum truck companies to train with DESC-owned fuel. To exercise the program during a non-emergency, an Army petroleum truck company sets up an ACES training plan and coordinates it with the DESC Americas ACES Coordinator, who determines the fuel quantities to be delivered, the nearest DFSP, customers, and tank truck inspection requirements. The unit then lifts and transports the fuel to the approved customers. If an actual interruption in commercial transportation occurs, the ACES plan would follow the same procedure, except that the ACES Coordinator would make the initial contact with the command. Currently, there are ten Major Army Commands that have signed MOAs to participate in the ACES program. These ten commands provide thirty petroleum truck companies, which greatly increases DESC's contingency response capability. Over the past year, DESC Americas has exceeded its goal of signing up twenty petroleum truck companies. This demonstrates a high level of support and commitment for the ACES program by the Reserve Army Component. Early projections indicate that at least fifteen additional petroleum truck companies will be involved in the ACES program by the end of 2003.

DESC AMERICAS GEMINI Filtration System: In September 2002, DESC Americas West completed refurbishment of the Gemini Filtration System. The Gemini employs Diatomaceous Earth (D.E.) filtration technology as a means of cleaning high volume off-spec fuel. The Gemini was originally procured from England for use on the US-owned Donges-Metz pipeline system in France. The filter became available when DoD turned over the pipeline to the French government. DESC Americas West identified a need and the unit was shipped to the United States. DESC utilized Sexton & Peake, Inc., Columbia, MD, to modify the Gemini into a portable, trailer mounted, Interstate highway compatible, filtration system. In August 2001, DESC Americas West contracted Sexton & Peake, Inc. to recondition and modify the flow pattern of the Gemini to improve and ensure continued operation and efficiency of the portable filtration system. In September 2002, final acceptance testing and operator training were completed. The Gemini is a DESC strategic asset available to deploy and reclaim off-spec fuel worldwide as required.

DESC AMERICAS Assumes Quality Oversight for DOE Northeast Home Heating Oil Reserve Program: DESC-AME assumed quality surveillance oversight of the U.S. Department of Energy (DoE) Northeast Home Heating Oil Reserve Program. This program is designed to store two million barrels of fungible home heating oil in selected terminals in Rhode Island, Connecticut, and New Jersey. The reserve heating oil is to be used in the event of a major disruption in the supply system. DESC-AME QSRs actively participate in the inventory and quality surveillance processes necessary for the effective management of this important program.

DESC AMERICAS Manages Jet Propellant Thermally Stable (JPTS) Quality Program: In September 2002, DESC-AME assumed quality oversight of JPTS product stored in a Houston Terminal. This special fuel possesses unique physical and chemical properties and requires unique handling, transportation, and analytical processes. DESC-AME Quality Representatives are involved in the surveillance, sampling, analysis, receipt, and shipment processes required to maintain this critical product on specification. JPTS shipments, particularly by marine tanker, are performed by a Quality Team, which brings a wealth of knowledge to the operation and minimizes the opportunity for any conditions that might affect product quality or integrity.

DESC AMERICAS Completes Reorganization: The reorganization of DESC Americas, announced in January 2001, was completed in July 2002 with the transfer of HQ, DESC Americas from Houston, TX, to Ft. Belvoir, VA. The Commander, DESC Americas, is now dual-hatted as the Director, DESC Bulk Fuels. This action completes the reorganization, which saw the closure of DESC Ft. Dix, NJ, and DESC St. Louis, MO, in March 2002 and the consolidation of fuel support functions at DESC Americas East (Houston, TX) and DESC Americas West (San Pedro, CA).

DESC AMERICAS Force Protection: Force Protection initiatives continue following the terrorists attacks of 9/11. Efforts focused on vulnerability assessments, improved perimeter barriers, lighting, vehicle inspection, and surveillance. Concerns with threats in the Ports of Los Angeles/Long Beach and Houston resulted in the creation of Port Security Committees headed by the USCG Captain of the Port. DESC-AME and -AMW are supporting members. Potential threats to DESC-chartered Military Sealift Command (MSC) tankers on the West Coast are being reduced with the use of sea marshals, armed USCG escort vessels, and armed guards on the vessel and fuel pier during port operations. Additionally, close coordination between local and national law enforcement agencies ensures timely communication and effective response.

DESC AMERICAS Underground Storage Tank (UST) Liner Pilot Project: DFSP San Pedro has 26 each 50,000-BBL concrete USTs, circa 1940. California law requires USTs be tested for physical integrity annually using the Tracer Tightness system. As a result of previous Tracer test failures, 7 each USTs are out of service. In July 2002, a pilot project was initiated to evaluate and validate application of a poly-sulfide epoxy novalac lining. The epoxy lining has performed flawlessly in a similar UST application at DFSP Manchester, WA. The epoxy lining pilot project will be evaluated for further application during FY03.

DESC AMERICAS Palos Verdes Blue Butterfly Preservation Building: Palos Verdes Blue Butterfly preservation groups proactively pursue efforts to promulgate the endangered Palos Verdes Blue Butterfly. The Palos Verdes Blue was previously believed to be extinct until sighted on Defense Fuel Support Point (DFSP) San Pedro in 1994. Since being discovered, the Palos Verdes Preservation Land Conservancy initiated efforts to improve the PV Blue's habitat and proliferation. DFSP San Pedro Building 108, a historically significant building, was used to support the PV Blue promulgation. Historical building restrictions to Building 108 and pending environmental remediation efforts resulted in DLA providing the Conservancy with a new mobile/relocatable building. Relocation from Building 108 to the new facility was completed in September 2002.

DESC-EUROPE Optimized Support To Incirlik AB, Turkey: DESC-Europe concentrated a great deal of time and effort on improving bulk fuel support to Incirlik Air Base, Turkey. This effort included two amendments to the current Turkish Ministry of Defense Fuels Division Letter of Agreement to expand the U.S. use of the Turkish NATO Pipeline System (TNPS). The amendment allowed for increased DESC tanker deliveries into the Mersin-NATO sea terminal, increased storage allocation in the TNPS and increased annual throughput of DESC product. The annual U.S. delivery throughput in the TNPS now stands at 1.6 million barrels and storage allocation is currently 335,000 barrels. In regards to operations, DESC-Europe gained concurrence from the 39th Wing to utilize the TNPS as the primary mode of receipt. In regards to facilities, DESC-Europe made important advances in improving the receipt to Incirlik, sponsored a field test to back-pump from the Adana-NATO depot to the Yumurtalik sea terminal, made significant progress toward installing a bypass line at the Adana-NATO terminal, and secured Naval Facilities Engineering Service Center's expertise in performing an assessment of the Mersin-NATO sea terminal to determine how intensive a dredging operation would be required to bring fully-loaded T-5 tankers into the harbor.

DESC-EUROPE Terminated GPSS Agreement and Pursues Fixed Price Concept: DESC-Europe terminated the 1971 pipeline operating agreement for the U.S. use of the Government Pipelines and Storages System (GPSS) in coordination with United Kingdom's Ministry of Defence (UK MOD) and UK Defence Fuels Group (DFG). Terminating the 1971 agreement will allow DESC to negotiate a new agreement with the UK MOD under a fixed-price banking system concept. DESC-Europe has conducted a series of meetings with the Oil and Pipelines Agency (OPA) and DFG to build a new optimized agreement.

DESC-EUROPE Finalized North European Pipeline System (NEPS) Draw Down: DESC-Europe finalized the draw down of the NEPS with a final sale of over 130,000 U.S. gallons to the Petroleum, Oil & Lubricants (POL) Division Denmark of excess DESC-owned JP-8 within the Danish portion of the NEPS at a price mutually agreed upon with DESC-Europe. DESC-Europe also presented POL Division Denmark a letter notifying them of our intent to terminate the existing Memorandum of Agreement.

DESC-EUROPE Tackled San Cusomano/DFSP Augusta Bay: DESC-Europe formed a multi-functional Tiger Team to examine multiple issues surrounding the San Cusomano, DFSP Augusta Bay, Punta Cugno, and Naval Air Station Sigonella fuel operations and to explore options on how to meet all customer requirements during the projected refurbishment of San Cusomano.

DESC-EUROPE Moved Balkans Office: DESC-Europe moved DESC-Balkans from Split, Croatia to Zagreb, Croatia. The move was made to be closer to the prime customer, namely Stabilization Force (SFOR). The office move facilitated better communication with the multi-national group of customers that compose SFOR.

DESC-EUROPE Established Liaison to DFG: Due to the increasing level of cooperation between DESC and Defence Fuels Group (DFG) on a global scale, DESC-Europe established a liaison to DFG. The liaison, a USAF O-4, arrived in December and is co-located with the DFG in West Moors, UK. The liaison officer also augments DESC-United Kingdom.

DESC-EUROPE Visited French Sea: DESC-Europe opened up talks with the French equivalent of DESC, Service Des Essences Des Armees, commonly referred to as "SEA," in Metz, France. Discussions focused on mutual items of bulk petroleum interest, including an exchange of organizational presentations, an exchange of contact data, information on fuel support to the Kosovo Stabilization Force in Croatia and tax exemption issues on fuel supplied to Istres Air Base, France. This was the first contact of senior fuels representatives between respective organizations in corporate memory.

Defense Energy Support Center-Pacific: Defense Energy Support Center-Pacific continued to provide superb bulk fuel support to the Unified Commander, Pacific Command (PACOM) forces conducting military contingencies, peacekeeping operations, humanitarian relief operations, and military exercises in more than 43 countries dispersed throughout 105 million square miles. DESC-Pacific has been vital in supporting OPERATION ENDURING FREEDOM (OEF) over the past year from en route and staging locations such as Diego Garcia, Guam and Hawaii. Since 11 Sep 01, DESC delivered over 257 million gallons of petroleum products to Diego Garcia in 27 tanker-loads. Seventeen of those tankers carried 182 million gallons of JP-5 which supported more than 8,000 sorties. In addition, DESC-Pacific arranged contract support through the U.S. Embassy Basic Ordering Agreement for into-plane requirements in Cebu and ground fuels support in Zamboanga, Philippines for OEF operations. From 21 October through 24 October, the Pacific Petroleum and Energy Conference was held at the Banyans, Naval Station Pearl Harbor. 134 attendees from the Joint Staff, Pacific Command, DESC Headquarters, Military Services and Defense Fuel Support Points benefited from this superb conference that addressed topics such as Executive Agency, the Fuel Automated System, Service Updates, OEF Lessons Learned and DESC Headquarters' topics of interest. 29 action items resulted from the conference.

Defense Energy Support Center-Korea: On 14 June, 2002, LTC Heidi Graham assumed command from LTC Jay Meyer. DESC-Korea continued to make strides in completing Maintenance, Repair and Environmental (MR&E) projects on the South Korean peninsula. DESC-Korea has completed 85% of the MR&E projects presently under DESC Korea management. All of the Army's 14 Transportation Motor Pools (TMPs) service stations will be completed by January 03 and the 3 remaining Air Force Gas Stations will be completed by March 03. The DESC-Korea MR&E program is a multi-year, \$160 million program that includes inspection and repair of Army and Air Force bulk fuel facilities, storage tanks, hydrant fuel system upgrades and repairs, and pipeline work. DESC capitalized the US Army bulk fuel in Korea in February 01, bringing many new challenges to the Inventory Management (IM) Division of DESC-Korea. In 2002, new Fuel Automated Systems were installed at all Defense Fuel Support Points in South Korea and DESC-Korea established a FAS Coordinator billet to provide on-site training and technical support to customers. The new systems accounted for over 450,000 barrels of bulk fuel throughput per month, and DESC-Korea's Quality Assurance Specialists were always on-scene to ensure on-specification deliveries. During FY 02, the Transportation Division of DESC-Korea supported U.S. Forces in Korea by directing movement of over 58 million gallons of bulk fuel with 1,778 movements by rail and 8,520 movements by tank truck. Also in 2002, the DESC-Korea team expertly assisted the United States Forces Korea (USFK) with Follow-On Bulk Petroleum Support Negotiations that will transition support from the former Trans Korea Pipeline (TKP) to the Commercial South North Pipeline (SNP) and commercial terminals located at Ulsan and Songnam. Agreement was made with the Republic of Korea's Ministry of Defense to proceed with an implementing agreement negotiated under a Facilities and Areas Sub-Committee Task to conclude support arrangements for U.S. Forces using the SNP.

Defense Energy Support Center (DESC) Supports The U.S. Army Space & Strategic and Defense Command in "Blue Velvet"

Project: The "Blue Velvet" project involves the Army's procurement of Inhibited Red Fuming Nitric Acid (IRFNA) from a foreign source and shipped to the United States in storage containers of a "non-US" origin. The Army asked DESC's assistance in identifying regulatory approved containers and transportation services. As DESC owns the only approved containers for IRFNA, DESC supported the Army's unique project. The approved drums were shipped to Huntsville AL where the IRFNA will be transferred from the "non-US" containers into the approved drums. The approved drums will then be shipped to Vandenberg AFB where DESC further agreed to store the product out our Controlled Storage Point (CSP). The IRFNA was used in two classified missions in August 2002.

Defense Energy Support Center-Alaska: On June 21st, 2002, LtCol Steve Kephart assumed command of DESC-Alaska from LtCol Pierre Redmon. Final remediation and closure of the old DFSP Anchorage site at Government Hill was completed. DESC-Alaska oversaw the start-up of the largest steam-air sparge/vapor extraction environmental remediation system located at the former Defense Fuel Support Point in Whittier, Alaska. This innovative technique is expected to reduce bio-remediation time from 75 years to 5 years and prevent the contamination of the pristine Prince William Sound. A "No Further Remedial Actions Required" request letter was approved by the Alaska Department of Environmental Conservation for the old spill site at Indian Pumphouse. Long term monitoring is being conducted using monitoring wells. During FY2002, DESC-Alaska successfully delivered 205 MBBLs of on-specification JP8, diesel and mogas to remote sites of Galena AFS, King Salmon AFS and Eareckson AFS during Operation Closed Port and Cool Barge. Contracts to the Aleutian Islands sites (Cool Barge) were awarded F.O.B. destination to improve quality assurance of the products.

Defense Energy Support Center-Japan: In August 2002, LtCol Rob Letourneau assumed command of DESC-Japan. During FY 02, DESC-Japan continued to meet the critical needs of its customers by providing exceptional bulk fuel logistics support. The office effectively managed a throughput of over 11 million barrels of bulk fuel and effectively administered orders against 4 Posts, Camps & Stations contracts totaling over 31 million gallons delivered throughout Japan. This small office of six personnel has the responsibility to efficiently manage over 60% of PACOM's petroleum inventory. Numerous tank cleanings, exercise commitments such as RSO&I, UFL, KEEN EDGE, and supporting operations for Operation Enduring Freedom have kept DESC-Japan at the forefront of customer support. In addition, the office manages execution of Common User Land Transportation (CULT) contracts worth 3.0 million dollars annually. During 2002, DESC-Japan worked closely with its customers, DESC Pacific, and DESC Ft. Belvoir, to field several automated management systems, to include Fuel Automated System (FAS) and PORTS. DESC-Japan was also a key player on the USFJ/J4 Strategic Fuels Infrastructure Action Plan Working Group. The team is developing an infrastructure master action plan that will optimize U.S. Forces Japan's bulk fuel infrastructure receipt and distribution capabilities throughout mainland Japan and Okinawa.

Defense Energy Support Center- Middle Pacific: On 18 June 2002, Maj Dan Semsel assumed command from LtCol Pete Camit. DESC-Middle Pacific has been vital in supporting Operation ENDURING FREEDOM over the past year from en route and staging locations such as Diego Garcia, Guam and Hawaii. DESC-Middle Pacific also played a key role in support of operations in the Philippines. While maintaining warfighter support, DESC-Middle Pacific provided support for infrastructure maintenance, repair and environmental projects to include closing the Pearl City Fuels Annex, cleaning and clearing 20 miles of pipeline from the Kipapa and Waikakalau storage areas, and numerous high dollar projects for FISC Pearl Harbor. During FY 2002, many of the tanks at FISC Pearl Harbor's Upper Tank Farm completed renovation under DESC's MR&E program and were put back into service. The new JP8 pipeline from FISC Pearl Harbor to Hickam AFB was completed just in time to support increased throughputs as a result of OEF operations. Customers in the Middle Pacific had the opportunity to step to the forefront of fuels automated systems, coming on line with FAS Energy Downstream before the new fiscal year after a successful end-of-fiscal year 2002 closeout.

DESC Holds Annual Container Meeting: On August 22, 2002, DESC held its Annual Container Meeting with the users and manufacturers of both product and containers of hydrazine and dinitrogen tetroxide. The meeting was held in conjunction with a Hypergols Customer Meeting on August 21, 2002, as many of the participants were the same. Forty-four (44) representative attended, to include Hypergols Fuels Managers from Redstone Arsenal, NASA/Kennedy Space Center, NASA White Sands, Columbiana Boiler, Lockheed Martin, Aerojet, Boeing, and Astrotech. Both hypergols production contractors, Mississippi Chemicals and Arch Chemicals, also attended. The meeting resulted in 15 action items and a request by the customers to conduct the next meeting in the early May FY03 timeframe.

Defense Energy Support Center- San Antonio-Missile Fuels Awards Dinitrogen Tetroxide Contract: On August 16, 2002, DESC's Missile Fuels Commodity Business Unit (CBU) awarded a fixed-price, five-year requirements-type contract to MissChem Nitrogen L.L.C. (Mississippi Chemicals), Yazoo City, Mississippi, for the production, storage and other ancillary services, to include rail, highway and cylinder distribution, of dinitrogen tetroxide, more commonly referred to as N204. This procurement action resulted from the Chapter 11 Filing by the U.S. Government's long-time sole provider of N204, Vicksburg Chemicals Company. DESC awarded the contract as a Commercial Item in less than two months from the date of electronic issuance of the competitive solicitation to contract award, due to the urgency of reestablishing the N204 Industrial Base. The contract's value, estimated at approximately \$24 million, approximately \$10 million less than the previous contract prices. N204 is an oxidizer that is used to launch United States Air Force Titan II and IV rockets, as well as Delta and Atlas expendable launch vehicles. In addition, N204 is used for maneuvering the National Aeronautics and Space Administration's Space Shuttle while in orbit and docking with the International Space Station. Mississippi Chemical's first contractual milestone, to deliver an on-spec sample of N204 from a pilot plant, was accomplished ahead of schedule in less than 10 working days after award. The DESC Contracting Officer authorized Mississippi Chemicals to proceed with plant retrofit upon chemical analysis of the N204 sample from the pilot plant.

Jet Propellant Thermally Stable (JPTS): JPTS, the fuel used in the U-2 reconnaissance and National Aeronautical Space Administration (NASA) ER-2 missions, was of significant effort in FY02 due to Operation Enduring Freedom. As a result of extensive market research, a competitive JPTS production solicitation resulted in the award of two new FOB Origin type contracts, one for a CONUS refinery in support of all domestic and Atlantic/Europe/Med requirements, and another contract to a Korean refinery in support of all Korean and Pacific theater requirements. Awarding this contract to a Korean refinery will save the United States Air Force approximately \$800,000 in annual transportation costs and reduce the delivery time to the end-user from weeks to hours.

DESC Supports Lockheed Martin Atlas III: DESC Missile Fuels CBU awarded two Indefinite Delivery/Indefinite Quantity contracts for delivery of liquid oxygen (LOX) to Space Launch Complex (SLC) 41 at Cape Canaveral AFS. Deliveries, which are in support of Lockheed Martin's Atlas III, one of two commercial Evolved Expandable Launch Vehicles (EELV), which will replace the USAF Titan, began on 1 Dec 02, with the two DESC contractors delivering multiple shipments each day in order to fill Lockheed's 550,000 gallon LOX tank at SLC 41. Due to the unique tiered pricing concept created for this buy, Lockheed Martin will pay a much reduced price as compared to conventional contract pricing. Lockheed Martin also gave DESC their requirements for the 7 other products they need in support of Atlas III. All were ordered under existing DESC contracts. The first Atlas III was successfully launched in July 2002.

Exercise Serene Response Rail and Highway: As a result of DESC's exemption from the Department of Transportation to ship hazardous chemicals over the Nation's rails and highways, DESC must ensure that effective emergency response capability is in effect at all times. As such, emergency response exercises are held every two years for highway and every three years for rail deliveries. In March 2002, DESC conducted a joint rail/highway emergency response exercise in Vicksburg, MS. Planning meetings with the exercise-trusted agents were held monthly leading up to the joint exercise. Trusted agents included representatives of the Vicksburg Fire and Police Departments, as well as carriers and escort personnel. In addition, two transportation specialists from the Missile Fuels CBU traveled to Columbus AFB to personally brief the Base Commander, Colonel James Playford, as to his installation's role in the exercise. Since Columbus AFB is the closest USAF installation to Vicksburg, they would need to function as "First Responder" during the exercise. Columbus AFB fully supported and participated in the exercise. The joint exercise was a great success, with 116 representatives of government, state and local emergency response agencies from the West and East Coast attending and learning the correct emergency response procedures. In Jun 02, a comprehensive After Action Report (AAR) of the joint N204 rail and highway exercise was submitted to the Department of Transportation (DOT) and the Military Traffic Management Command (MTMC). The AAR is in complete compliance with the Department of Transportation Exemption that allows DESC to transport N204 on US highways and the DOT Approval to ship N204 by rail.